NEW TESTS MARKET MUST MEET

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

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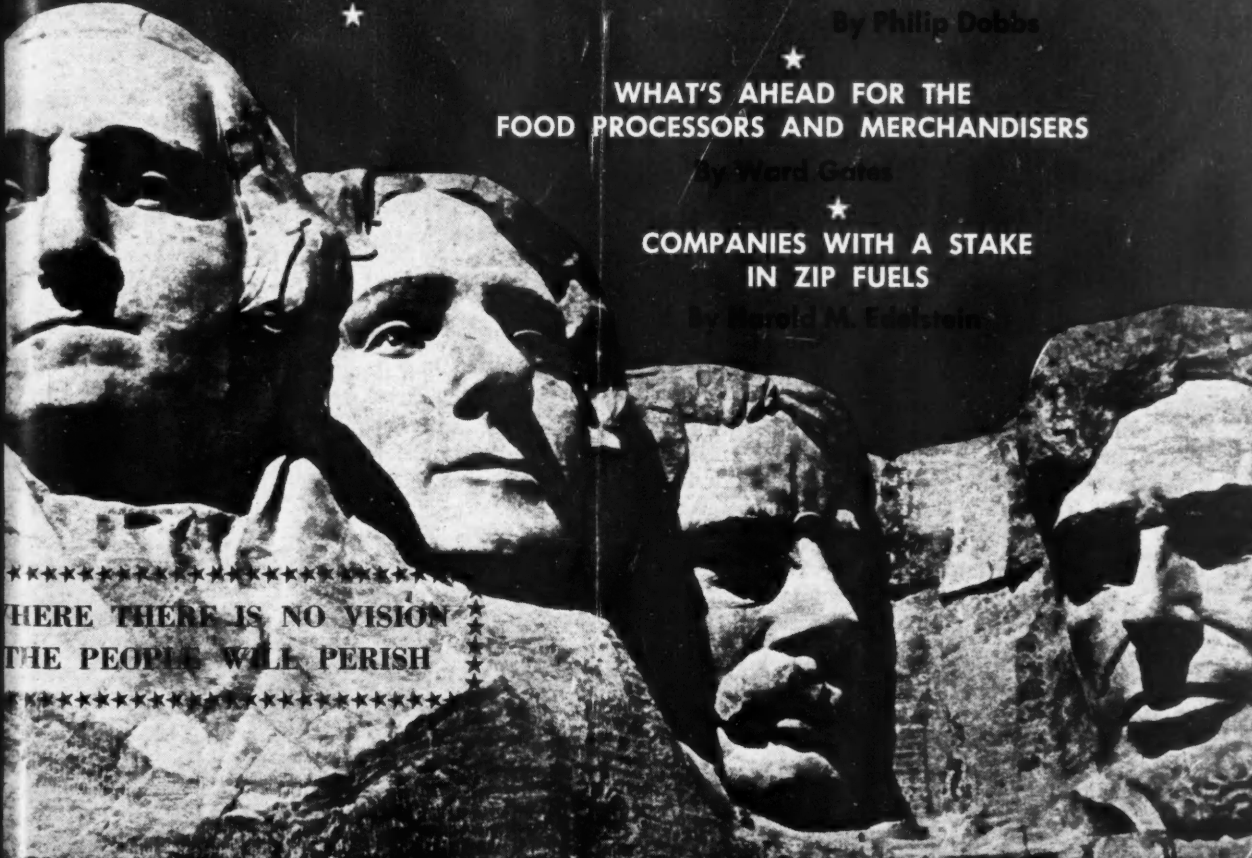

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A HOME-TOWN BUSINESS

THE BELL SYSTEM is nationwide yet the telephone business is largely a local business.

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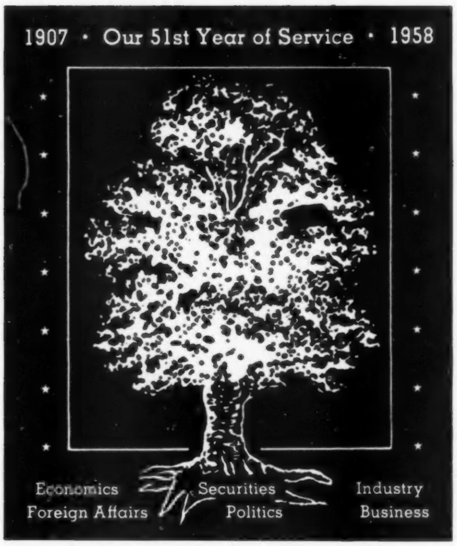
So the Bell Telephone Company isn't something far away but close to you wherever you live and a friendly, helpful part of the community. That is the way you'd like it to be and we try very hard to run it that way.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET
C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

HOW WILL WE GET BACK? . . . If you are planning a trip to the Conrad Hilton Lunar Hotel on the Moon you had better be certain that a round trip ticket is available, and make serious inquiries about transportation. We understand the space ship that is supposed to carry you on your return voyage lands on its tail (and we hope it does)—and we are wondering once we get there—what the facilities are for launching the homeward journey.

But what worries us most is what will happen after we leave earth and before we get to the moon? We know that we must rise beyond the gravitational pull of the earth in order to stay aloft, but do we know at what level we may be subject to the gravitational pull of the other planets—for sure? After all, there is no margin for error and a miss may be as good as a million miles.

Yet, so forward-looking and impatient are the promoters of space travel that they have already laid plans for even more distant excursions into outer space—the farthermost point to take 40 years in our calculation of time—but only a few months for the people aboard the space ship traveling at the speed of light. And they are already splitting hairs as to whether a man would look 40 years older when and if he got back, or only a few months older. But maybe this is just preliminary to the announcement in a sales brochure where these trips will be billed as an advance on Dr. Voronoff's gland transplantation – and offered as a new Fountain-of-Youth for the rejuvenation of man.

We often wonder what kind of lunacy is prompting this longing to set foot on the moon which our scientists describe as a miserable and desolate place. Some are saying that we actually have not really seen the surface of the moon – that what we see is an outer layer of dust several miles thick. And what after we get through this cloud? Nobody knows!

What then has caused so many people on this earth to become moon-struck? I can only feel that the speed of transportation and communication which has made every continent accessible to us, has satisfied our more adventurous souls, who are now seeking new outlets to visit. And yet we have barely scratched the surface of the beauty and mysteries of this earth. Is it because the "grass always looks greener elsewhere"? We know this supposition has been the lure that motivated the common variety of restless adventurers who have sought their fortunes around the world and come back disillusioned and penniless to find what they were looking for in their own home and community.

At this point I heave a sigh. It does seem a pity to think of the moon as a scientific specimen instead of the romantic symbol it has been to poets and lovers since time immemorial.

A SMATTERING OF IGNORANCE . . . The new proposal by an economics professor that the Federal Reserve include common stocks in its open market operations is one of the most unrealistic and harmful suggestions made yet, and is undoubtedly based on an academic rather than a practical understanding of the functions of the stock market.

For example, at the mo-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907–*"Our 51st Year of Service"*–1958

ment the latest report on short selling shows an increase of a million shares, to a total of 3.9 million, the largest short position since 1932. What would the Federal Reserve or any other official agency do under these circumstances? Would they act to offset this short position—would they stand on the sidelines—would they attempt to go against the combined judgment of the mass of seasoned investors—and who would decide what they are to do?

Under the professor's plan, we assume the Federal Reserve would act to offset these short sales by buying stocks. This would be highly undesirable, because it would artificially raise the market and cause losses not only to the professional buyer, but those who are selling against securities they hold in the hope of preventing severe losses in a recession. In fact, the Federal Reserve would be imposing its judgment on the stock market even where short selling was soundly founded and justified. As every professional well knows, a large short interest will later on cushion a market decline, and can serve as a great stabilizer when we need one.

Conversely, what would the Reserve do in a rising market when people are buying heavily? Would the reserve step in and sell stocks and thus rob investors of the rewards of their foresight and their willingness to take risks?

As far as the listed corporations themselves are concerned, it would narrow the investment interest in their issues, discourage investment, and make new financing difficult. Altogether, this seems to be very much of a crack-pot scheme, of which there is such an abundance at the moment.

Instead of asking for government intervention, our efforts today should be aimed at finding ways to get the government and its agencies out of the business field, rather than inviting them in.

THE COURAGEOUS MR. ROMNEY SPEAKS OUT . . . It is fortunate for us that in Mr. Romney's position he can afford to call the shots as he sees them. Two years ago we ran a story, "Giantism in Excess"—in which we called attention to the dangers of centering great industrial and economic power in a single corporation.

Since that time it has been proven true, for the decline in automobile buying, for example has had a serious effect on a wide group of industries—and depressed 25% of our economy.

But Mr. Romney brought out a new and interesting angle to show that giantism in corporations makes an entire industry vulnerable in a way that enables labor unions to wield abnormal power. That when companies are so large, the unions can aim their fire at any one of them, and by threatening to upset the competitive position can, with a single victory, bring an entire industry to its knees. What has happened and is about to happen in labor is thoroughly covered in our feature, "Labor Bosses—Attempting to Tyrannize our Economy", which appears in this issue.

However, when all is said and done, Mr. Romney only dealt with the effect and not the forces in the economic system that are inexorably driving our corporations to bigness. How this and other problems are to be solved is still in the lap of the Gods. But the recession itself, if it goes far enough, may automatically produce correctives for the problems that have been plaguing us these many years, and toward which a booming economy encouraged complacency.

WHAT THE U N IS REALLY GOOD FOR . . . We have finally discovered the purpose of the UN is to enable small nations to put big powers in their place.

Thus, when France, Britain and Israel attacked Egypt, the hue and cry rose to high heaven. But, when Tunisia broke her neutrality by allowing Algeria to use its territory as a base of operations for an attack on the French, the press backed her up when she cried "foul"—after the French retaliatory bombing of these Algerian installations.

And not a wee small voice was raised over Colonel Nasser's current invasion of the Sudan despite his agreement to accept the status quo. Indeed, his picture and that of the unfortunate Sudanese Foreign Minister appeared on the front pages, and the story ran merely as a dull news report.

We are wondering what is wrong with our press, for this is not the first time we have noticed a tendency to overlook the transgressions of the smaller nations and to magnify the slightest misstep on the part of the great powers—and also to play down the good news and to play up the bad news affecting the West.

This was especially noticeable some months ago, at the time of the NATO Conference, when the press stamped it a failure — and altho subsequent events showed that NATO members realized that if they did not stand with the United States the only other alternative was Russia, I did not see any correction in the press. In fact, Cyrus L. Sulzberger in his fine column in *The Times* expressed his concern regarding this situation, and quoted from a letter by Andre de Staercke, Belgian Ambassador to the North Atlantic Council, in which he said:

> **"The meeting was difficult but good. The President played a tremendous part in it, by what he said and did and also by his understanding. Frankly I cannot keep in line with our Western press. Before the meeting it said that nothing could be expected. After the meeting it said everything was in question.**
>
> **"There is a masochistic trend in that attitude, which is Russia's greatest ally. These people waste constantly a great amount of wit to prove at any moment that the West is always wrong. It is neither fair nor true.**
>
> **"In the case of our meeting, for instance, I feel that it is the first time we have achieved a real 'Atlantic' definition of policy . . ."**

From the above it is clear that a great deal of confusion and lack of understanding of the facts has resulted from the way these matters have been handled by the press.

It seems only logical that a good press for the West is bound to be noted in the United Nations, and may cause them to sit up and take notice . . . for as matters now stand everyone is waiting to see whether the U.N. is going to give the Sudan more than lip service and the protection that she deserves against the Egyptian aggression. And the attitude of the press will be a factor that may sway results.

As I See It!

By JOHN H. LIND

THE DILEMMA FOR THE OIL COMPANIES UNDER CIVIL WAR IN INDONESIA

THE civil war in Indonesia has caught three major western oil companies right in the middle. Royal Dutch Shell, Caltex and Standard Vacuum are together producing daily some 360,000 barrels of oil in Indonesia. The bulk of their production lies in Sumatra, which has just formed its own government, in defiance of President Sukarno's National Government in Jakarta.

So far Sukarno has taken no direct action against the Sumatran Rebel Government beyond discharging the army officers participating in it and ordering their arrest. Both of these steps are merely gestures, since they cannot be enforced due to the fact that the Rebel Government has full control over most of Sumatra.

Whether a full-scale civil war will ensue, or whether Jakarta will be able to reassert its authority over the outer islands, or whether Sumatra, perhaps together with Borneo and Northern Celebes, will form a new independent nation is too early to say. But it is certain that something drastic is about to happen in Indonesia, since the present situation there is obviously untenable.

The oil companies' trouble lies in the fact that they provide Indonesia with its most lucrative income source, its main foreign exchange source, as well as its main domestic fuel source. Thus, whichever party controls the country's oil output has a most significant advantage over its opponent. Right now the main oil fields and refineries lie in rebel-controlled territory. The rebels are already making the most of this by having ordered an end to all oil shipments to Sukarno-controlled Java, Indonesia's most populated island. Furthermore, they have asked the oil companies to stop paying royalties or other taxes to Jakarta and make payments to the Rebel Government instead.

This has put the companies into a quandry. Their sympathies may be assumed to lie with the rebels, who are strongly anti-communistic and in favor of private foreign investments. The companies remember well that when the Rebel Government's Justice Minister, Harahap, was Prime Minister of Indonesia for a brief period in 1956, the climate for foreign business improved immediately.

On the other hand, they could tell a long woeful story of harassment on the part of the Sukarno regime, including refusal to grant them any new exploration licenses, expropriation of Shell's northern Sumatra oil fields, which have not been producing since World War II as a result of the government's policy, etc.

Over a barrel

With Apologies to Loring of The Evening Bulletin, Providence, R. I.

However, the companies undoubtedly also realize that to give aid and comfort to a rebel movement would not exactly endear them with the central government. If the latter should win the present struggle, such an attitude might have serious repercussions for the companies, whose investments in Indonesia are on a very large scale.

The most vulnerable of the three is Caltex, since it is by far the largest oil producer there. But all three companies are currently in a very delicate situation, since they sit squarely on the powder keg of South East Asia's biggest political explosion.

A side issue of this situation is its possible effect on U. S. oil imports. Sumatra is currently shipping some 55,000 to 60,000 barrels of oil daily to California, mostly from the Caltex fields. This is equal to over 20% of the West Coast's total oil imports. If the Sumatran oil ports should become closed as a result of a civil war, which has been reported, but not confirmed, it might help reduce the present excess of oil imports to the West Coast which has been a minor but persistent headache of the U. S. Government for some time.

It has been predicted that Jakarta forces may land in the Djambi area, south of the strategic oil port of Pakenbaru, the location of the American-owned Caltex Oil Corporation. Whether they will be able to make any headway, however, depends upon the extent of rebel forces in arms!

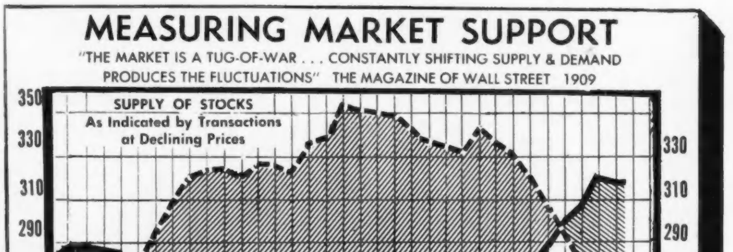
New Tests Market Must Meet

A possible levelling out of the business recession, starting in the second quarter, would leave first-half industrial and rail earnings down sharply, with second-half potentials restricted. Whether the stock market is fully adjusted is doubtful. Even if it holds on nearby tests, basis for anything better than trading swings cannot be cited.

By A. T. MILLER

For perspective, here is the pattern of the industrial stock average in round figures: down 101 points from the bull market top to last October; up 39 points to the early February rally high; down 19 points from the latter to last week's close. For rails: off over 85 points to late December; up 15 points to February 4; down 6 points therefrom to date. After making up nearly seven-eighths of the entire prior decline, utilities have been confined to a tight trading range since late January.

The recent performance, the business environment and the "feel of the air" suggest a probability that the early-February levels will stand as the top of an intermediate recovery phase for the industrial and rail lists. if so, the question to be answered by the market in coming weeks is whether the downside support levels heretofore indicated – in the 420-425 area for the industrial average and 95-96 for rails—will hold. So far, nothing worse than a digestion period can be envisioned for utilities which will benefit from the abnormally cold winter, and for investment-grade income stocks generally; and some further rise is possible, in view of easing money rates and satisfactory prospects for earnings and dividends.



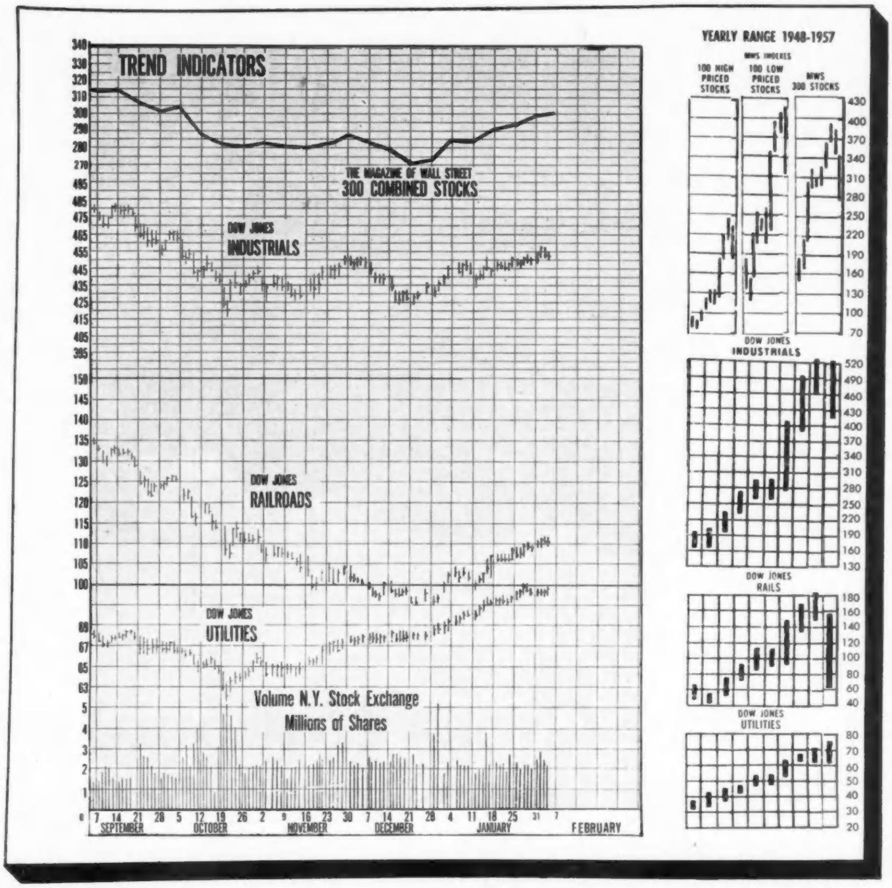
Obstacles To Be Faced

It is possible that the business recession will flatten out or grind to a halt within the second quarter, as the Administration hopes and has predicted; but it is by no means certain that it will and, even if it does, the next upswing of any significance could well be delayed for a considerable period of time. The principal controlling factors are: (1) governmental spending (Federal, state and local); (2) consumer spending; (3) business inventory policy; (4) export trade; and (5) plant-equipment outlays. On the supporting side, government outlays are trending upward. Total consumer spending is not likely to change more than nominally from the present level at any time this year, with moderately increased outlays for services and soft goods probably at least balanced by reduced demand for consumer durables.

Business inventory policy is "iffy". It would mean business sees need for mounting inventories. A cessation, or even a slow-down, in over-all inventory liquidation would be helpful; but so far sales and new orders have receded more than have inventories and, with virtually all materials and goods in over-supply, it is impossible to see basis for general inventory expansion. Export trade is pointing downward. Finally, the worst effects of the capital-goods slump on total business volume and aggregate corporate earnings have not yet been felt; and may not be fully felt for a good many months to come. The implications may not have been sufficiently recognized by hopeful Washington forecasters or by investors. While inventory

deflation is a big factor, recession in the whole field of durable goods—including the vital heavy-industry segment—is, in our view, a bigger one.

In duration this slump has already exceeded those of 1948-1949 and 1953-1954, as measured by the production index. The latter fell another 3 points in January to 133, extending the total shrinkage from the December, 1956, peak to about 9.5%, which compares with 1948-1949 and 1953-1954 declines of 10.5% and 10.2%, respectively. There has undoubtedly been a further dip in February; and recent news of cutbacks in output and layoffs of workers in the automotive industry, as well as in some other fields, suggests that the over-all downward trend probably will be extended at least through March. We therefore appear to be within close sight of a level around 130-129 for the index, footing up to a 15-month drop in the vicinity of 12%. That might "wrap it up". Time will tell.



Administration efforts to talk things up are futile. The "built-in stabilizers"—unemployment insurance, pensions, etc.,—are partial cushions. The official money-easing policy will take months to work. Such direct remedies as public works programs and/or tax cuts cannot be quickly applied. Therefore, instead of inducing a business recovery, they could be expected to bear inflationary fruit after a normal revival had already started.

It is pointless to note that Government action can prevent another 1929-1932 deflation spiral, because there is no threat of anything like that anyway, whatever the Government does or does not do. We have no big speculative pyramid of credit to be liquidated. Bearing on Government "management", suffice it to recollect that, under the New-Deal emphasis on planning and deficit financing, we had a 1937-1938 depression which in 10 months cut production by nearly 34% and resulted in a rise of about 4,000,000 in unemployment to a total around 11,500,000 as of mid-1938.

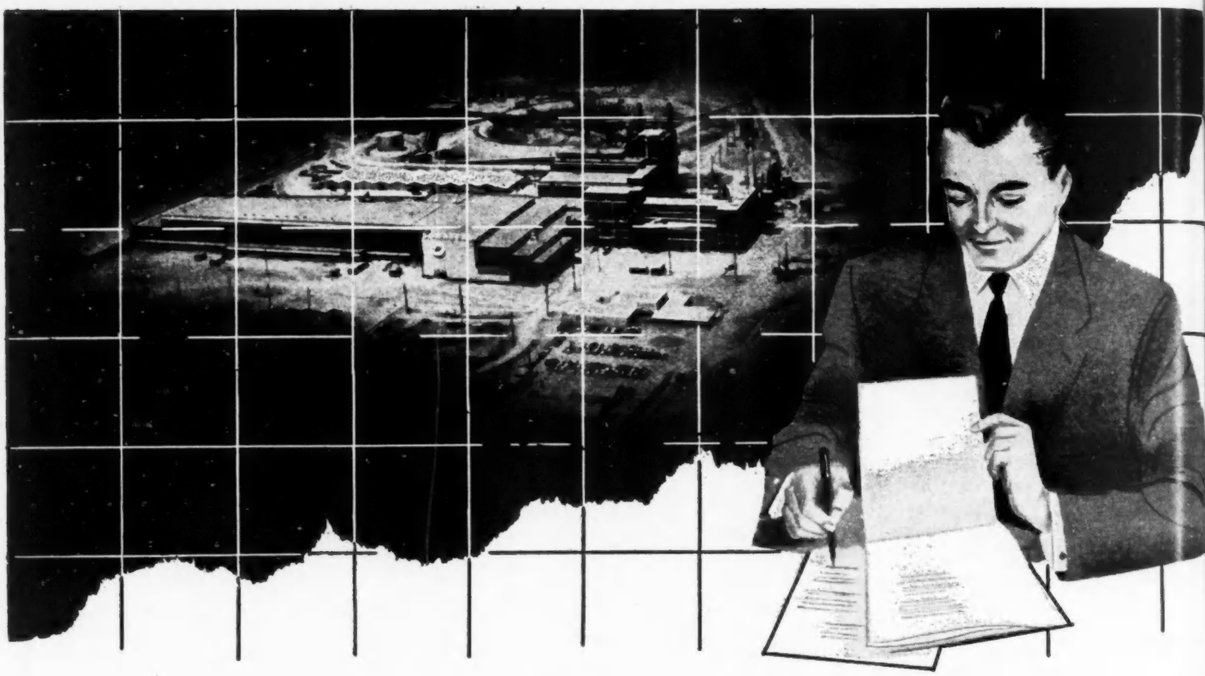
A Long Recession Bottom?

Assuming we might reach a low point in March, what then? In 1954 a bottom of 123 for the production index in March was followed by six months of consolidation. We would expect the "valley" to be wider, perhaps considerably so, in the present instance because of industrial over-capacity and abundant supply of materials and goods.

Meanwhile, average corporate earnings figure to be sharply lower for the first quarter, to fall somewhat further in the second quarter, and to do little better than level out in the second half, on the basis of the production trend heretofore tentatively allowed for. Many of the interim reports are going to be shocking, and will test the fortitude of stockholders. For instance, at an operating rate around 54% of capacity, few, if any, steel companies can have quarterly earnings even near coverage of quarterly dividends. In the automotive field, durable goods generally, and the railroad industry, very lean first-half profits are indicated. There is more bad dividend news coming in many individual instances, even though aggregate 1958 payments may not be much changed from last year's.

Can the market meet the tests without the averages breaking through their previous lows? We say: wait and see. Even if it does hold up, the subsequent range could be restricted for some time to come because of prospective "flat" earnings and dividends; and because stock prices are still at medium-high, rather than depressed, levels. For instance, measured by ratio of cash-dividend yields to bond yields, representative prominent industrial equities are some 35% higher than they were at the market's September, 1953, low point.

Average cash-dividend yield on industrials is around 4.4%. It would be unprecedented for a cylical market adjustment to be completed without the figure rising (*Please turn to page* 720)



Why Gross National Product IS NOT a True Guide to the Business Outlook

BY MICHAEL STEPHEN

EDITOR'S NOTE: *We are fortunate in being able to present this timely breakdown and assessment of the various elements used by the government in computing the GNP—clearly showing its inadequacy as a guide to the business outlook. The outstanding business analyst writing this story then constructively points out the simple elements that are the true and practical gauge to the business trend.*

THE great debate on the extent of the current recession in economic activity is coming to a head. For the optimists, Raymond J. Saulnier, Chairman of the President's Council of Economic Advisers, drew headlines with his forecast that the economy would turn up in June or July. An even more bullish view came from Carroll M. Shanks, head of the giant Prudential Insurance Company, who saw signs of revival already under way. President Eisenhower dated the beginning of recovery in March.

But a sizable number of private business and academic economists take more bearish, though less well publicized, positions. They find themselves more inclined to lay weight on Federal Reserve Board Chairman William McChesney Martin's warning before the Congressional Joint Economic Committee that the economic recession "may be deeper and more protracted than many now anticipate."

Every businessman and worker is aware, in a background of growing unemployment, shrinking markets and profit margins, and slowing business activity, that the correct answer in this debate is crucially important. Are we in a mild, 1949 or 1954 type, recession or are we entering a considerably more serious, longer downturn in general economic activity.

The weight of the argument is shifting perceptibly to the side of the bears. The optimists got a real shock from the 1.1 million rise in unemployment during January, twice the normal seasonal increase. This pushed the total of jobless up to 4.5 million, or 5.8 per cent of the labor force, highest since 1950. During the 1949 recession, unemployment rose to a postwar peak of 4.8 million, 7.8 per cent of the then smaller working force. In 1954, unemployment hit 4.1 million or 6.4 per cent.

Meanwhile, industrial production continues to sag. The Federal Reserve Board index of industrial production, 136 in December, slipped 3 points further to 133 in January, down 9.5 per cent from the Decem-

ber 1956 peak of 147.

Another 2 point decline in February would take the index down to 131, more than 10.9 per cent below the peak. At that point, unless there is recovery clearly in sight, there will have to be serious questioning of the all too popular assumption that the current recession is merely a repetition of the mild 1949 and 1954 downturns. For in those recessions industrial production turned up after a 10% decline.

In light of all this, many businessmen are puzzled by the forecasts of 1958 gross national product which are bandied about in discussions of the economic outlook. Bullish forecasts, like that of Prodential's Carroll H. Shanks, which envisages a 1958 GNP of $450 billion, against $434 billion in 1947, can be written off as mistaken optimism if you don't agree. But what about the forecasts in which people who consider themselves extremely bearish forecast 1958 GNP no lower than $430 or $425 billion, down only 1 or 2 per cent from the record 1957 level.

Is it that there aren't any real bears around? Or is there something in the nature of GNP which makes it a misleading index to the business situation?

Past Performances

Consulting the statistical records to see what GNP did in the previous postwar recessions is one way to evaluate the current forecasts. While it is a truism that the past never repeats itself exactly, it can provide useful guide lines to the future.

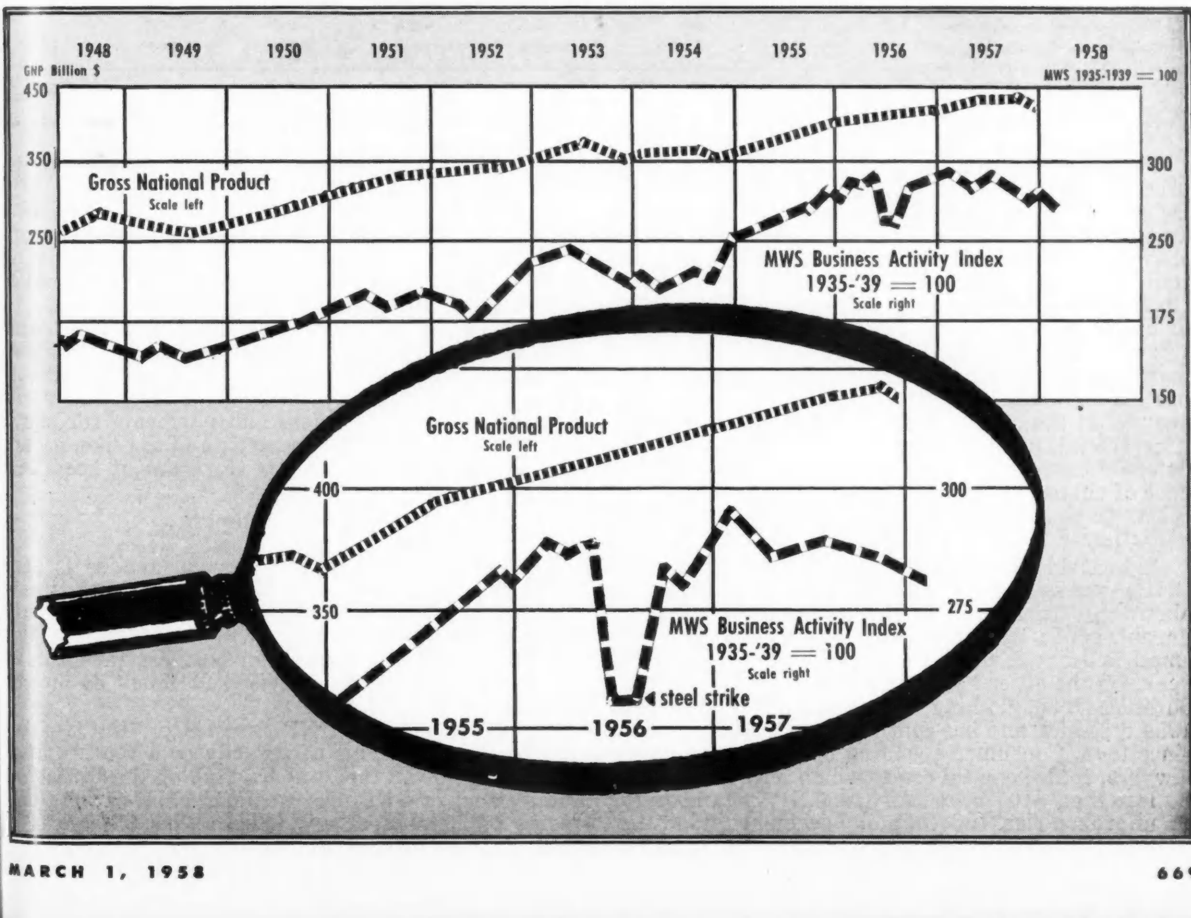
Looking at the record of the 1949 recession in terms of GNP, the business man is liable to get a serious shock. The recession has disappeared. In the statistical records as they now stand, gross national product for 1948 and 1949 is identical at $257.3 billion.

Yet, the business man remembers, industrial production did decline about 10 per cent in 1949. New orders of manufacturers did fall some 17 per cent. Unemployment did rise as high as 4.5 million in February 1950. Is there something wrong with all these figures or is there something wrong with the gross national product figures?

A glance at the 1954 recession only provides more reason for puzzlement. Gross national product in the recession year of 1954 totaled $361 billion compared with $363 billion in the peak years of 1953. Yet the Federal Reserve Board index of industrial production again dropped about 10 per cent, as in 1949, and while unemployment did not touch the peak figures of the '49 recession, it did rise to a high of 4.1 million in 1954.

How is it possible for gross national product to show such small fluctuations when industrial production and unemployment are swinging so widely? Clearly we need to know more about gross national product. What is it, how is it made up and how

Gross National Product includes the sum total of all goods and services produced at any given time, and it therefore cannot possibly indicate the business trend, as the chart herewith so clearly shows.



seriously should we take projections of economic activity that are cast in the shape of GNP forecasts?

What is GNP?

GNP, or gross national product, is the statistician's and economist's jargon for the best estimate that can be made of the total value of all goods and services produced in the United States in a year. Its wide use reflects the fact that it represents in one figure the net result of the thousands and thousands of statistics gathered to record economic activity which would be unmanageable in all their voluminous detail. Needless to say, any such simplification needs careful handling. The technicians who make up GNP estimates are well aware of drawbacks and inadequacies in the figures. But many people without technical or statistical training overlook this and assume that any figure published by an official government agency is beyond question.

The following table shows the GNP figures for the past 5 years, broken down into the significant components usually discussed.

the data on services in table No. 2 on page 710 rise so suspiciously straight that they distrust them as too much of an estimate.

Gross private domestic investment is the most volatile, major segment of GNP, reflecting its sensitivity to changes in the business and profit outlook and in the availability of financing. Within this category, inventory investment or disinvestment is the most active element. But business inventory stocking or reduction usually runs its course in nine months or a year. What worries forecasters of the current economic scene most is the downturn in business' plant and equipment spending, which may persist for several years in view of the extent to which existing productive capacity already exceeds market demands.

The table below shows a $1.3 billion decline in plant and equipment spending from 1953 to 1954 and then a $3 billion rebound in 1955. This year a reasonable expectation might be a $4.6 billion reduction from 1957 to 1958, further decline in 1959, and no substantial recovery, barring the outbreak of war, for even longer.

Billions of Dollars	1953	1954	1955	1956	1957
Personal consumption expenditures	**$230.5**	**$236.6**	**$254.4**	**$267.2**	**$280.4**
Durable goods	29.8	29.4	35.6	33.9	35.1
Nondurable goods	119.1	120.6	126.0	133.3	140.0
Services	81.7	86.6	92.8	99.9	105.4
Gross private investment	**50.3**	**48.4**	**60.6**	**65.9**	**63.6**
Plant and equipment	38.1	36.8	39.8	46.1	49.4
Change in business inventories	0.3	−1.9	4.2	4.6	0.0
Residential construction	11.9	13.5	16.6	15.3	14.2
Net foreign investment	**2.0**	**−0.4**	**−0.5**	**1.4**	**3.3**
Government purchases	**84.4**	**76.6**	**77.1**	**80.2**	**86.6**
Total GNP	**$363.2**	**$361.2**	**$391.7**	**$414.7**	**$433.9**

The first thing that has to be said about these figures, and the estimates currently released by the Department of Commerce, is that they do not take account of price inflation. If prices rise, these figures show an increase in GNP even though actual production has not increased. Thus, the $23 billion rise in GNP from 1955 to 1956 is reduced to $12.2 billion, or by about 50 per cent, if the inflating effect of rising prices is removed from the figures. The Commerce Department is aware of this deficiency and has made "deflated" GNP figures available for past years. But the complexity of the correction, plus the time needed, make it impracticable, thus far, to deflate the current GNP estimates. Keeping the influence of changes in price in mind, however, there are other things we need to know about the GNP statistics.

As the table shows, the consumer takes most of the GNP; personal consumption outlays account for about 5/8 of the gross national product. Outlays on durable goods—automobiles, television sets, large and small household appliances—fluctuate from year to year. On the other hand, consumer spending on nondurables—food, clothing, etc.—rose right through the 1954 recession and has continued to increase steadily since then. Consumer spending on services—doctors, lawyers, rent, hospital costs—which now account for no less than $105 billion of the GNP is famous for its unbroken rise. Indeed, many economists find that

Net foreign investment—reflecting mainly our export surplus—moves around a good deal but is a relatively small figure in the GNP total. The $3.3 billion figure for 1957 shown in the table was unusually high as a result of heavy oil exports during and following the Suez crisis; a considerably smaller figure is likely in 1958.

Spending by Government, counted on to be a major expansionary force in 1958, has been running about 1/5 of GNP. This figure includes only goods and services purchased by Government, Thus, outlays for interest on the public debt and payments for social security, unemployment benefits and the like, do not appear in the GNP figure on Government spending.

GNP is an Estimate

What the layman often does not realize is that GNP is an estimate. It is, to be sure, an estimate made by highly skilled statisticians. But it is still subject to error and revision. Some of the detailed sectors—savings or changes in business inventories, for example—have been revised as much as 50 per cent on occasion.

Estimates of total GNP fare better. But not because the statisticians necessarily do a better initial estimating job on the total. Talking on the statistical foundations of GNP, George Jaszi, chief of the Commerce Department's (*Please turn to page 708*)

LABOR BOSSES

Attempting to Tyrannize Our Economy

BY JAMES J. BUTLER

EDITORS NOTE: *Mr. Reuther's demands are out-of-hand – for he well knows –*

– That to date labor has received full compensation for productivity . . . in addition to getting everything the traffic will bear out of automation, even beyond the point of productivity . . . with pay raises encroaching and cutting into quality of product as well.

Mr. Reuther is not ignorant of these facts. He knows them as well as we do. Therefore, if he were genuinely interested in protecting the interests of the worker and of the economy of this country – now in recession, he would not make suggestions that he knows full well will bring disruption and greater uncertainty. Only a labor monopoly with freedom from taxation enables him to do so.

Let's break the labor monopoly and demand from Congress the legislation that will make labor union funds be subject to taxes.

BRANDISHING the gunpoint of strike threat, organized labor leaders are moving over a chartered course that will inevitably hold our economy in a tight grip, – a grip that has already produced unbearably higher consumer costs, a labor-management revolution, profit-squeeze, and forced a slow-down in plans for further mechanization of industry.

Union labor leaders had better recognize that they are going to be on trial during this recession. Many of the workers have been restive for a long time, and are waiting to see how the unions will take care

of the unemployed, and whether they will live up to their agreements and come through with the benefits promised, for which workers have been paying big dues. They will also expect greater statesmanship and less antagonism to the employers so as to prevent as much work stoppage as possible. The unions today are no more powerful than were the Guilds in the 15th century, who overreached themselves, just as union leaders are doing today.

The possibility of a walkout of automobile workers is being debated but not discounted. Whether Walter Reuther would chance pulling his United Automobile Workers (1.2 million members) out for a layoff that could become so protracted as to break his union Treasury can only be speculated. On the other hand, whether industry would accept the alternative of Reuther's assumption of management control is answered by some authorities with a question: "He put over the Guaranteed Annual Wage, didn't he?"

UAW is building its war chest against the possibility of a strike this summer. Dues have been raised by $5 a month for March, April, and May in an action which has a peculiar twist: any sum in excess of $25 million which remains in the strike fund after 1958 negotiations have been completed will be refunded to members on a pro rata basis. This may have been Reuther's way of telling his union that the strike, if there is one, will be neither long nor costly; it could have been acceptance of rank-and-file members warning to him that it had better not be. Also significant in this respect is the fact that President Reuther originally asked his special convention to permit the fund to go sky-high and kept there and his resolutions committee backed him strongly on that. But when it came to the floor, the minority prevailed. With apparent reluctance, UAW offices said the ceiling (after negotiations are completed) was favored by 85 per cent of the delegates. That ballot came after Reuther pulled one of his rare switches in declared policy.

Because a sweeping strike in the automobile trades would slow an estimated 20-25 per cent of the industrial economy and place in jeopardy the jobs of one out of each seven persons gainfully employed today, no facet of the outlook is unimportant. If strike comes and management concludes there are enough cars cleared off the assembly line by then to take care of the rest of this year's depressed new car market, UAW's treasury cannot stand the pull. In the event it cracks, Reuther has convention authority to borrow money from local banks, other international unions, or from other sources. Should 50,000 or more workers join in a strike, the dues increase will be continued beyond the terminal date first fixed and remain in effect until the war chest is back to $25 million, the convention directed.

Strikes Cost Unions Money, Too

The automobile workers strike fund stood at $24 million as of Jan. 1. The $5-a-member dues boost for March-May would bring in $16 millions. In the past three years UAW has spent $24 million financing strikes but the cost of that luxury, like others, is going up. The union has dropped "need" as a condition for receiving strike benefits; henceforth they will be paid as a matter of right, to all members.

If one wishes to examine the economics of a UAW strike, these basic facts should be sufficient: a strike against General Motors would cost more than $8 million a week for the first seven weeks; by the 12th week the outlay would be above $11 million; an 11-week strike would cost $80 million.

An 11-week strike against Ford would cost the union $32 million; a strike of the same duration against Chrysler would tap the union till for $22 million.

These are not statistics conjured by management to frighten union members. They are lifted bodily from the Feb. 3, 1958 issue of "UAW Solidarity," the union newspaper whose nominal editor is Walter Reuther.

The UAW boss has his sights fixed on the aircraft and missile industries as well. While he is not proposing to dictate distribution of income on his own predetermined formula there, he has told card holders in those plants the time to get wage and hour benefits is when the companies are busy. Clearly this can mean nothing else but take advantage of the defense effort.

For the aviation-missile workmen, Reuther has laid out this basic program: "Substantial wage increase over and above make-up in cost-of-living allowance, and the following 'musts': Employment security through severance pay and relocation pay; improved and expanded pension-health-welfare programs; jointly administered apprentice training programs; elimination of abuses in the job evaluation wage plan system; extension of union shop clauses to all contracts where law permits."

Speaking of his program for 1958, the UAW boss declared "we have adopted this strike relief plan not because we are strike-happy, but because at the bargaining table we can improve the possibilities of avoiding a strike." The conciliatory mood evaporates with that generalization, for the union leader intends to bring to negotiations these contentions: Wage increases for auto workers have not been responsible for price increases; wages have not increased in proportion to productivity; auto makers have boosted prices $5 for each $1 of wage increase, and many times faster than the increase in wages and materials; manufacturers greed and a design to break the unions have contributed to unit price boosts; rate of return for the Big Three has far outstripped the rate for the average American industry; consumers have met the cost of all plant expansions out of price boosts; almost the same number of workers produced 50 per cent more cars in 1957 than in 1947; General Motors could have absorbed all wage increases since 1955 and still made reasonable profits; there is no price competition among the Big Three and it is virtually impossible for the new companies to enter the field and create competition; price policies are intended to insure 20 per cent net profits even if plants operate only 36 weeks a year.

Labor's position is that it alone has the function of building purchasing power by distributing inflated paychecks. That overlooks the equities which should reside in the 75 per cent of gainfully employed persons who belong to no union. But the rank-and-file card holders, bemused by the glib and practiced tongues of their "leaders" seem bent on sharing the grief—the higher priced commodities of rapidly deteriorating manufacture.

Reuther makes a strong point of the fact that the same number of workers today produces 50 per cent more automobiles than 10 years ago. That is the story of mechanization—automation, if you will. It

simply means that industry has made greater productivity possible by plowing back earnings, only to have wage increases tap off the major share of the improvement. As a matter of fact it has been established that approximately 90 per cent of all wealth is created by capital, 10 per cent by labor. But labor reaps approximately 70 per cent of the gains made in this way. Put another way, industry has provided the new and costly tools, but labor draws the benefits. From a payroll standpoint, auto companies would be as well off if they elected not to mechanize—the purpose of automation has been defeated.

Monopoly Is Source of Labor Strength

There is a crisis brewing today that only preoccupation with direct defense needs, satellite races, and politics, blocks out of top priority in national thinking!

It has been amply illustrated that labor faces no immediate curb of its monopolistic powers and other abuses at the hands of any department of government, legislative, executive, or judicial. There is much talk of writing new ground rules for the unions but the commission on revision of the rules is labor, with a capital "L." That is the situation as unions and management prepare to sit down at what is euphemistically called the "collective bargaining table." Lacking frowns from Congress or an organized consumer public, the unions go to the table holding all the cards. Not up the sleeve, but boldly displayed.

MAJOR LABOR CONTRACT EXPIRATIONS IN 1958

(involving 10,000-or-more employees)

Industry	Union	Expiration	Av. No. Employees
AUTOMOBILE:			
GM, Ford, Chrysler	UAW	May	650,000
AIRCRAFT:			
Douglas	UAW	March	32,000
Douglas	UAW	March	28,000
North American	IAM	March	32,000
Boeing	IAM	May	23,000
Bendix	UAW	August	16,000
COMMUNICATIONS:			
Western Union	Telegraphers Union	May	30,000
ELECTRICAL:			
Raytheon	IBEW	October	13,000
FARM EQUIPMENT:			
Caterpillar & Harvester	UAW	July	58,000
GLASS:			
Pittsburgh Plate, Libby-Owens-Ford	Glass Workers	September	22,000
MACHINERY:			
GM	IUE	May	40,000
PAPER:			
International	Paperworkers	May	12,000
TEXTILE:			
Carpet Mfrs.	Textile Workers	June (wages only)	23,000
Cotton-Rayon	Textile Workers	April	55,000
Woolen-Worsted	Textile Workers	April	35,000
N.E. & Mid-Atlantic (Regional)	Textile Workers	October	24,000

In addition to full terminations in this calendar year, there are several important contracts which are scheduled to be reopened as to wages, hours, or employment security conditions. In the latter category comes the October reopening of the International Union of Electrical Workers pact with Westinghouse and General Electric, involving a total of about 150,000 payrollers. IUE President James Carey is readying a list of demands which even his associates at AFL-CIO view dimly and predict will be resisted by the companies to the point of accepting a strike as the alternative. Carey is said to be adamant and especially eyeing the 85,000 workers at GE. "Employment Security" hasn't been publicly spelled out by Carey, but it is known to mean, to him, more pay for fewer hours of work.

The Communications Workers of America is one of the labor groups which comes into the public eye frequently. There are constant threats (and some fulfillments) of strikes tying up the telephone systems without which business is virtually at a standstill, making especially ominous the statement of policy by President Joseph Beirne. Operating in what is close to a monopoly field, Beirne promised his membership:

"In our next round of negotiations, CWA will meet the challenge of the nation's lagging economy by asking for two items deliberately calculated to bolster consumer purchasing power, which is the key to an urgently needed upswing in the economic cycle. We will ask first for an equitable and general wage increase, and second for added vacation time that will mean an additional 15 to 20 million man hours when spread across the entire communications industry. There are no pipe dreams in this program. Our goals are attainable."

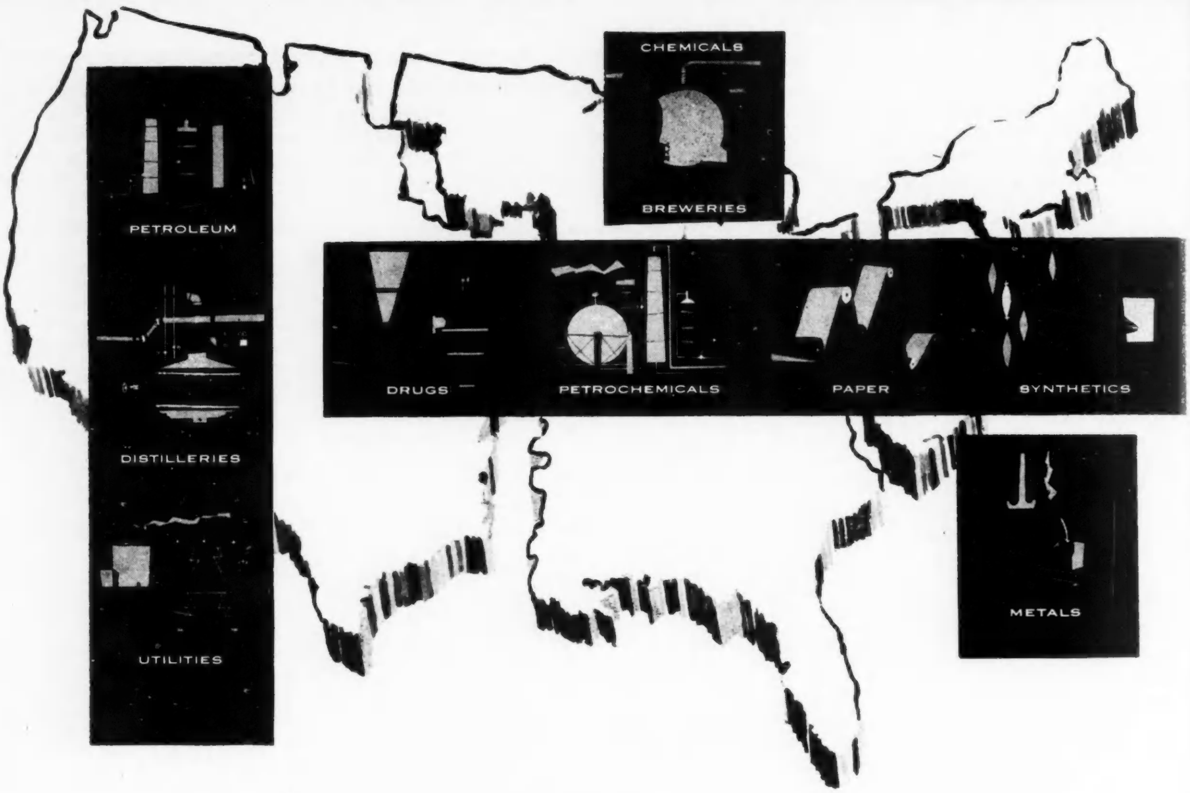
Again, organized labor is volunteering for the duty of restoring the economy by accepting larger paychecks for less work. Again, Beirne: "The people of America—through their unions—can reverse the down trend in the nation's economy through vigorous and persistent action on the wage bargaining front."

Edward H. Chamberlain had some studied, pointed comments on this theory. Professor Chamberlain, Harvard economist, is the man who produced the work "Theory of Monopolistic Competition," 25 years ago. It revised much of the thinking of that day in business circles. He seeks to do a similar service in the area of labor union activity today. He wrote:

"Wage-push inflation is logically inconsistent with a purely competitive labor market, and it will naturally be denied by many, among whom will be those whose thinking continues to run in 'competitive' terms. . . . There seems to be no reason to doubt that the upward pressures exerted by unions and transmitted to prices through the law of costs may well proceed (as they have recently) at a rate greater than the rate of increase in productivity for the economy *as a whole*, with a resulting rise in prices. An obvious alternative is to diminish in some measure the degree of economic power in the hands of unions, so that the pressure may be reduced at its source."

Continuing, Professor Chamberlain commented:

"A more subtle line of argument is that receivers of higher wages benefit the rest of the economy by spending them and thus spreading prosperity. Whatever the element of truth or falsity in this proposition, it need only be pointed out that it is equally true (or false) for income received by any element of society, and (*Please turn to page* 710)



New Realism Needed in Deciding on PLANT LOCATIONS

—To make undertaking profitable

EDITORS NOTE: *This carefully documented story shows the reasons for the great losses incurred by inefficiency in selecting new plant sites, which have caused loss to stockholders—as well as where and why success has been attained by sound calculation. Text and tables show:*

(1) Each factor necessary in determining the best location for a manufacturing plant

(2) The key elements playing an outstanding role in selection

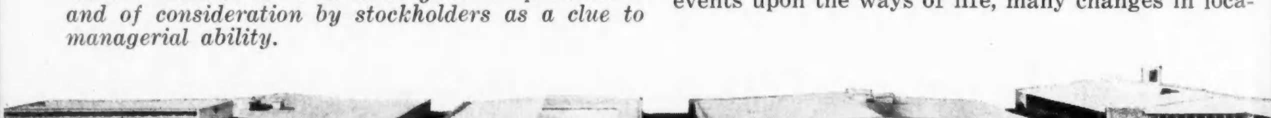
(3) Mr. Van Cleef then sets up a single industrial city settled by a variety of companies in various industries, and charts their relation one to the other and how it spells success

This feature is of top importance to executives of smaller businesses—as well as giant corporations—and of consideration by stockholders as a clue to managerial ability.

BY EUGENE VAN CLEEF

For 5 years Vice-Chairman of both the Columbus City Planning Commission and Franklin County Regional Planning Commission.

DURING the past decade, manufacturers have focussed more attention upon the significance of location as related to industrial success than at any other time in our economic history. This has been particularly true in the case of the larger organizations which have been expanding by way of branch plants and among those who have responded to the government's appeal for decentralization. Sometimes decisions have been good and then again not so good. With the tremendous impact of kaleidoscopic events upon the ways of life, many changes in loca-



tional considerations have manifested themselves and must play an ever increasing critical role in our industrial evolution.

The right location for a plant may depend largely upon only one or two circumstances or it may call for consideration of a whole complex of phenomena such as those listed in Table 1. In a few instances, the growth of some firms appears to have been independent of locational factors, but actually this is more apparent than real. Errors are still made in determining locations because there are persons who either persist in operating on "hunches," or substitute what they call "common sense" for the scientific approach. Perhaps of greatest interest is the growing realization by plant owners of the mutuality of social or community attitudes and industrial progress.

The Western Electric Company recently cast about for a satisfactory location for a $50,000,000 plant scheduled to make special equipment for the telephone industry. They were interested in building somewhere within the Great Lakes Region. Columbus, Ohio, was their ultimate choice, where the plant is now in course of construction. They have stated that two of the most vital factors in their consideration of location were related to suppliers and markets. But they investigated as well, transportation, utilities, taxation, labor supply and skills, local government, and cultural status. Concern about utilities was associated with dependability on uninterrupted water and sewerage services. This was not all.

The characteristics of the community climate involving educational and research facilities, citizen attitudes, and cultural standards generally, were also deemed critical. Like a few other organizations, Western Electric did not lose sight of the fact that they were building for permanence; that the local organization would consist of persons, several thousands of them, and that these employes would be an integral part of the local community, "for better or for worse",—an almost revolutionary point of view.

Importance of Community Relations

As an illustration of the sensitivity of a firm to the play of community attitude, the case of the Ford Co. seeking a location in the same city as did Western Electric, is enlightening. Little more than a year ago, the Ford Company expressed a desire to erect a parts plant in Columbus. It proposed to employ about 3,000 persons. Naturally the business interests of the city were enthusiastic and the public in general was in accord. All went well until the company selected a site close to the edge of a good residential neighborhood and requested that the land be zoned for heavy industry. The Planning Commission made such a recommendation to the City Council and the Council approved. But the home owners, who incidentally had no objections to a Ford plant in Columbus, protested so vigorously against the erection of a plant in their vicinity that the Council rescinded its action, only later to indicate a willingness to change its mind again if Ford would decide to go ahead with its plans. But the Ford representatives by this time lost interest, taking the stand that to locate where local public opposition was strong would be most unwise. To build without the good will of a considerable portion of the local residents would only jeopardize the future of that industrial establishment. The company built in a neighboring state.

Determinants of Plant Location

Table 2, lists a sampling of major industries and indicates in general terms those elements which are of prime importance in the determination of a best location and those other factors, though important, which do not rank quite so high. In general, favorable conditions may be found in the northeastern quarter of the United States. But this does not mean all of them will be found at any selected point; or that if they do occur at a selected center all will be

TABLE 1
The Kind of Data Useful in Determining the best Location for a Manufacturing Plant.

ECONOMIC

Capital
- Generally mobile

Labor
- Quantity, Quality
- Wage rates
- Unions
- Regulating laws
- Cost of living

Fuel and Power
- Rates

Land
- Cost

Taxation
- Rates

Banking
- Facilities

Building
- Rental of space available
- Construction costs
- Purchase prices

Transportation
- Types available
  - Local and long haul
- Rates
- Quality of service
- Local traffic flow

Laws
- Local and state
- Corporation
- Taxation
- Workmen's compensation
- Hours
- Local zoning

Market

Current industrial activity

GEOGRAPHIC

Physical accessibility

Land
- Area Available
- Topography
- Soils
- Sub-soil structure
- Drainage
- Aerial Photographs

Climate
- Seasonal extremes
- Wind velocities and directions
- Sunshine percentage
- Humidity
- Precipitation forms—
  - Rain, snow, hail, etc.
  - Quantity—frequency
- Special phenomena
  - Tornadoes, etc.

Water supply
- Quality-Quantity
- Dependability

Raw materials
- Nature
- Distribution
- Distance to those needed

Fuel and Power
- Coal-Oil-Gas-
- Water-Wood
- Atomic

Transportation
- Pattern of network
  - Rail-Motor-
  - Road-Water-Air-
  - Airport quality
  - Pipelines
  - Local

SOCIAL

Population size

Housing

Retail stores (Quality)

Health services

Recreation facilities

Educational facilities

The role of women

Churches

Public Press

Police protection
- Crime records

Fire service

Research facilities

Planning Commission

Quality of other cultural elements

Community attitudes

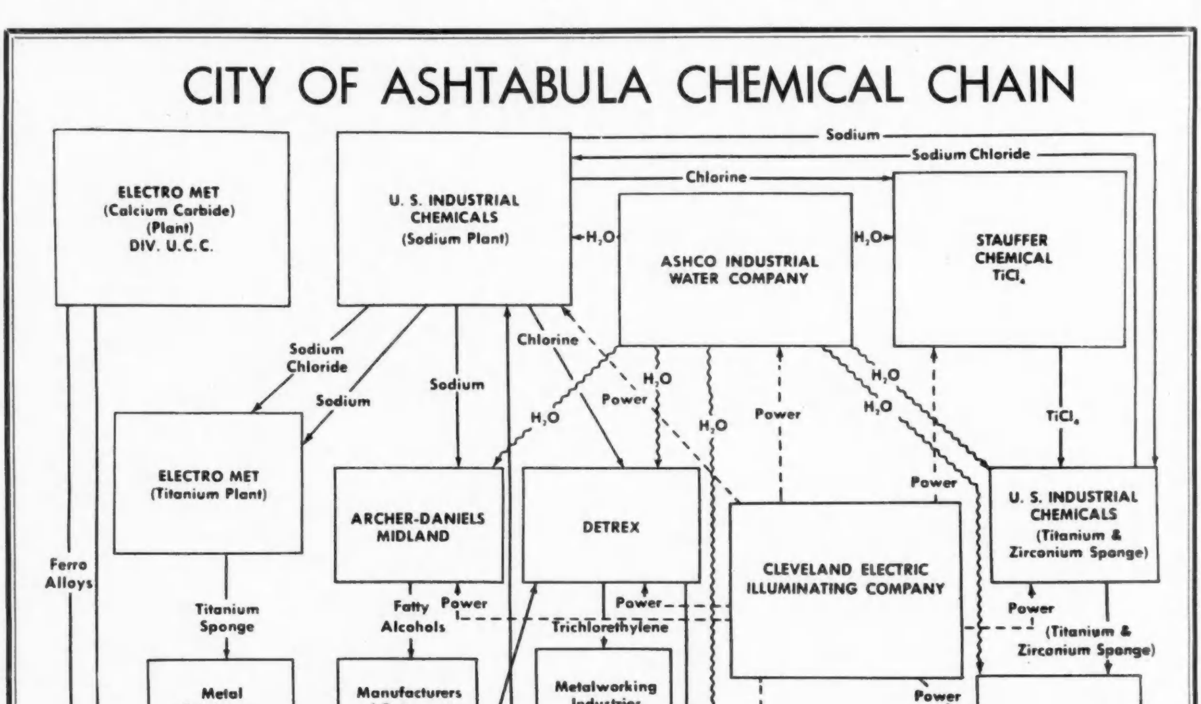
RECORD OF GROWTH
Industrially — Culturally — In General

wholly satisfactory. For example, an industry involving the manufacture of carborundum which relies upon a vast amount of low cost electrical power and therefore finds a location near Niagara Falls, New York, highly desirable, would look with less favor upon localities in Ohio even though power could be derived from abundant coal. And so it is with many other industries. Generalization is possible only within the limits indicated and beyond this point each individual industry must consider minutiae which are peculiar to itself. Of interest in Table 2 is the last column where social aspects are not listed as prime, undoubtedly a temporary situation, for as already pointed out, individual companies are placing increasing emphasis upon this phase of locational requirements. To point up the human element once again, we refer to a striking historical contrast in locational quality between Detroit and Toledo as related to the automobile industry.

At the turn of the century as everyone knows, the automobile came to be recognized as a vehicle which would carve a niche for itself among our transportation facilities. It so happens that much of the early experimental work was done in Detroit and many of the original ideas were spawned there. But Detroit was not the best location for producing and marketing the automobile. The city was not on a major all United States railroad route between the west and east. It was not in close proximity to steel mills nor manufacturers of glass, rubber and other essential raw materials. The city, however, did have a reservoir of skilled labor. Among other things it had been a great stove manufacturing center. Detroit stoves and ranges were known round the world. But just about the time the automobile appeared on the horizon the furnace which made possible central heating in homes and other structures began to displace stoves. The labor which had acquired facility in machine operations associated with stove production was ready to accept jobs in other industries and the automotive was as good as any. Even so, there was a better location for automobile manufacture not far from Detroit.

Toledo was on the main railroad line between Chicago and New York. It was on an easy north-south route reaching cheap and good coal from the Appalachian fields, coal that could be shipped on the Ohio River to Cincinnati and thence by rail to Toledo. This model center was at the head of Lake Erie where the estuary of the Maumee River sent its waters into the lake and provided good harbor potentialities. The orientation of Toledo afforded it good prospect of becoming a rail center. Only a few miles from the labor of Detroit, that labor could have been attracted. But, quite in contrast with today, Toledo lacked leadership.

The land round about the Maumee estuary was low and poorly drained. This swampy condition com-



bined with inadequate water purification and sewage facilities invited disease. And oddly enough no one in the more or less corrupt government seemed to care, or if someone did care, nothing was done about it. As a matter of fact some automotive starts were made in Toledo, but largely because of indifference toward the public well being, most of them either failed or moved out.

A great concentration of effort on the part of men with vision provided Detroit with sufficiently fertile ground to support a rapid growth of the automobile industry. As momentum in production was acquired, transportation deficiencies were largely overcome by establishing parts and assembly plants at diverse points in the nation. By this time it was too late for an awakened Toledo to capture its lost opportunity.

TABLE 2

A sampling of industries, comparing qualitatively for each one, the relative importance of a few elements playing an outstanding role in the selection of a plant location.[1]

	Land	Water	Raw Materials	Fuel Power	Labor	Transportation	Market	Social Aspect
Iron and Steel	✳	✳	✳	✳	☒	✳	✳	★
Chemical (heavy)	✳	✳	☒	✳	☒	✳	✳	★
Textile	☒	☒	☒	✳	✳	✳	☒	★
Petroleum refining	✳	✳	☒	☒	☒	✳	☒	★
Rubber (tires)	✳	✳	☒	☒	☒	✳	✳	★

✳ = **Prime importance**

☒ = **Secondary consideration but important**

★ = **Social aspects increasingly critical**

[1]—**The relative importance of the elements is highly generalized. In specific cases importance may depart notably from this schedule.**

The Pittsburgh Experience

Just as producers in Detroit converted a "wrong" location into one that became relatively satisfactory, so, in contrast, manufacturers in Pittsburgh enjoyed a "right" location until the discovery of new deposits of iron ore, in the Lake Superior region, made their location relatively unsatisfactory.

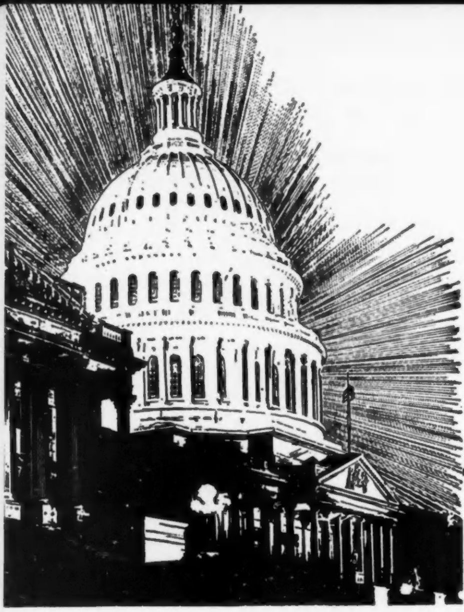
Pittsburgh's location at the junction of the Allegheny and Monongahela Rivers forming the head of the Ohio River, combined with the proximity of coal, limestone and low grade iron ore, provided an ideal setting for the steel industry.

A rapidly developing midwest gave Pittsburgh centrality. But when in the 1890's, the iron ore of the western Lake Superior District began to displace the poorer grades of local ore, steel plants sprang up closer to the Great Lakes. The lake shores then became the most economical meeting place for iron ore, coal and limestone and in consequence the Pittsburgh steel industry was faced with possible extinction.

To save itself, the U. S. Steel Corporation, about 1903, devised a Basing Point system which made it possible to continue in business. This system fought by the businessmen of Duluth, Minnesota, when a steel plant erected there did not yield price-wise, the advantages which had been anticipated, became known as the "Pittsburgh +," arrangement. To their dismay consumers of steel made in Duluth were quoted the Pittsburgh price plus the freight from Pittsburgh even though the steel had not traveled a mile. This plan which was the essence of the Basing Point idea, in a sense extended the location of the steel company to any point satisfying its own convenience. In 1948 the Basing Point system was withdrawn. The latter action did not prove disastrous to Pittsburgh steel manufacturers as some thought it might. Tremendous momentum and prestige which the industry had acquired, an enormous demand for steel, and the leadership which had been mustered came to the rescue. However, the United States Steel Corporation, as evidenced by the new plant at Morrisville, Pennsylvania, apparently is planning to play safe by locating divisions closer to its respective markets. And with all this reaction to the "changing times", business interests in and out of the steel industry in Pittsburgh have shown a remarkable change in attitude toward the local citizenry. The rehabilitation of the "Golden Triangle" along with smoke abatement, expressways, better housing and many other physical improvements have not only aroused civic enthusiasm but have contributed to the strengthening of the city's economic position and the advancement of social conditions.

One of the striking contrasts between the steel and chemical industry lies in the fact that the latter is largely the source of its own raw materials. What is known as "linkage" in industrial location, a form of close interdependence, reflects this seeming paradox. The Cleveland Electric Illuminating Co. is capitalizing on the phenomenon of linkage in the sale of its power. It possesses rather extensive land holdings fronting on Lake Erie, east and northeast of Cleveland and has power available for distribution as far as Conneaut. At some points in this region chemical establishments are "linked" as shown in the diagram on page 676 portraying a unit in Ashtabula, Ohio.

The Ashtabula case points up the production of a variety of chemicals which, although the end product for the respective firms, is the raw material for others. Proximity of these industries to each other means a saving in transportation costs and in certain instances an important saving in time between getting raw materials from their source to their destination. There is often economy too, in the avoidance of stock-piling and warehousing. Labor is not as significant an element here as in many other industries. In Table 2 labor is not cited as of prime importance because so many of the chemical processes are mechanized. *(Please turn to page 716)*



Inside Washington

By "VERITAS"

RAILROADS have won partial relief from the Interstate Commerce Commission in the shape of a 2 per cent increase in freight rates on many commodities (they had asked 3 per cent), and now look to Congress for additional aid. It may be forthcoming. The rails have made out a convincing case of discrimination in the application of excise tax, applicable to for-hire transporters but not effective when big companies use their own trucks over competitive routes. Congress is in a mood for tax reduction, confined to low- and middle-incomes, and a majority is believed to look favorably on excise elimination, except on liquor, tobacco, automotive and other big money producers.

WASHINGTON SEES:

The Administration's announced plan to aid the economy by funneling $2 billion into a postal modernization program seems clearly to be a White House answer to public demand to "Do Something!" rather than a carefully evaluated attack on business recession.

If conditions are due to get better in the Spring months, as the President still insists, or grow worse as many economists agree, the post office construction won't be in the picture. The President announced the plan as if it were something ready for overnight launching. In truth, the Postmaster General was caught without an updated schedule of local postal building needs and General Services Administration is dusting off some old lists which are not up to date.

Even the financial aspect was less than carefully planned. The $2 billion isn't in existence, for this purpose. Now it's announced that increased income from a five-cent local delivery postage stamp (a boost from three cents) will carry the projects through their earlier stages. But that hike in revenues already had been allocated to pay salary increases! Which is bad enough in itself, but much worse since the fact is that Congress is not likely to vote the postage increases, and, if it did, the money wouldn't be forthcoming until the new fiscal year—beginning July 1. It won't be needed then, if Ike is correct in his forecast; it will be too late if he isn't.

RETIREMENT announcement by Senator Harry F. Byrd, who said he will not run at the end of his present term, was a bombshell to the conservative wing of Congress as well as to constituents who have kept him in office at the State House or at the Capitol for most of his adult life. Byrd has been a one-man economy bloc whose influence extended not only through both Houses of Congress, but also "downtown." Statewide effort to "draft" him for another six-year Senate term is applauded by members of both parties in Congress. But illness in his family motivates his decision to retire. Those who know him best say it is a final, irrevocable decision.

MODERNIZATION of the military transport aircraft, now regarded up to 80 per cent obsolete, has become a must. The Holifield Committee is considering a proposal that commercially useful craft and parts be sold, primarily to foreign aid nations, and a modern jet fleet be constructed. The business-creating possibilities are not being overlooked in a time when aircraft companies are cutting work forces. Committeemen are poring over figures which indicate that future operations by contract with commercial air carriers could save $30 million a day, $6 billions a year. "Government invasion of private business" is one of the objections to the present system.

VOTE DEAL that might bring essential strength to the Administration's reciprocal trade law extension move is on the fire. The voluntary import plan for oil from foreign fields is not working to the satisfaction of domestic producers. Their Congressmen have been clamoring for invocation of the Presidential power to make the quota system mandatory. Ike has resisted this, on advice of the State Department. So the Congressional group has totaled its voting strength at a figure in excess of 50 (members from oil producing and refining states) and has let word slip out that these votes just might be available if their plea for protection is answered.

As We Go To Press

Top prize for political stupidity goes to the planners of that Texas republican campaign fund-raising dinner at which Minority Leader Joseph W. Martin was imposed upon by backers of the natural gas bill. Result will be no gas bill this year. Martin was hauled down to Texas under the billing (he didn't know it until it was too late for correction) as the republican who has put his party on the spot on the natural gas measure, and is to be relied upon to deliver a majority of his party-men in favor of the bill this year. How he could both run out on his party's policy and also swing its members into line didn't seem to strike the dinner planners as any particular trick. But, then, the gas bill lobby has been marked for inexplicable mental processes before.

President Eisenhower was willing to accept the natural gas bill ridding the producers of Federal rate control. On its merits, a majority of both houses of Congress went along. But when Ike was informed that the natural gas lobby had made a $2500 "campaign gift" to a Senator (who was going to vote for the measure, anyway) he vetoed it.

The President announced then that he might approve the bill this year — assuming, he emphasized, that it came to him under cleaner auspices. Instead of letting matters take their course the GOP Chairman for Texas staged the dinner with Martin as speaker, set the campaign chest goal at $100,000. The arrogance was not dropped; it merely shifted from Washington to Texas.

There are a number of Capitol Hill votes which were wavering. It isn't clear-cut whether consumers would win or lose under the pending measure and many votes went for the bill on the say-so of its backers. But it must raise serious question in the minds of these doubtful voters when, year after year, heavy handed methods are brought into play. The Minority Leader said he still considers the bill a good one. But he made it emphatic that he isn't "delivering" votes and doesn't expect a majority of GOPers to go along.

National Chairman Meade Alcorn was shocked at the temerity of the Texas wing of the party and its $100,000 price tag on republican support. Not a cent of the money will be accepted by the National Committee for campaign help, he made it forcefully emphatic. As to a veto, should the bill squeeze through Congress: Ike's reason for rejecting the bill last year was the fact that the oil lobby tried to influence one Senator; this time, the lobby set out to buy a party. Ike's party, at that! Compounding the original sin, GOP Senate and House Campaign Committees announced they'll be happy to accept the swag.

Organized labor's public relations programs are not always successful, but they rarely can be classed as stupid. The unions operate loudly, in the open, management attempts to be more subtle and frequently falls on its face. There are no parallels in union efforts comparable to trying to convince Senator Francis Case, the flinty conservative, that a $2,500 campaign gift on the eve of a vote on a subject in which the donor is vitally interested is unrelated to that vote. Case, as any good P.R. man could have told the gas lobby he would, reacted by exposing the offer, rejecting the money. And, incidentally, defeating the bill which he actually favored on its merits.

An error or judgment can be excused. But the gas lobby hadn't supported Case openly in any of his previous campaigns over two decades and the timing was a dead giveaway. And it could hardly be classed as a simple error of judgment on the occasion when business interests sent fake telegrams to Congress urging defeat of the Holding Company Act. It was being "subtle"; phony names on telegrams sent from the same Western Union office in Pennsylvania! Judgement was involved, too--

bad judgement--when employers placed slips of paper in pay envelopes attempting to scare employees into urging their Congressmen to defeat the Social Security Act. Management was caught and exposed in all of these instances. What's next on the program?

▶ Political forecasters (who aren't always right) are revising upward their prediction of democratic party pickup in the House of Representatives based on the upcoming election. Louis Bean of Washington, D. C., who didn't miss even on Truman to defeat Dewey, says 60 republicans will give way to democrats in November. Republican headquarters says only that the figure is too high; the implication is clear that the objective will be to hold down the demmies lead with no hope of reversing it. In the Senate a democratic pickup of several seats seems inevitable.

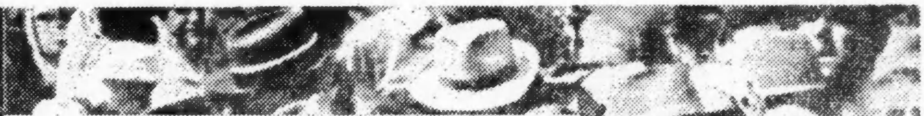
▶ Whether these results will come to pass is for the future, but the expectation is doing much to unite the democrats who are looking ahead to 1960, and to shatter the morale of republicans on Capitol Hill. The White House had to plead with Rep. Robert W. Kean to get the Administration's reciprocal trade treaty bill extension introduced under GOP auspices. Then he presented it, reluctantly. Kean would like to be the U. S. Senatorial nominee from New Jersey this year. He has been in the House for about 20 years and is a smart politician. He saw Malcom Forbes, GOP nominee for Governor of New Jersey, slaughtered at the polls several months ago by Governor Meyner, democrat. The Ike-and-Dick combination went all out for Forbes and Kean obviously is weighing whether that's a help or excess baggage in the race.

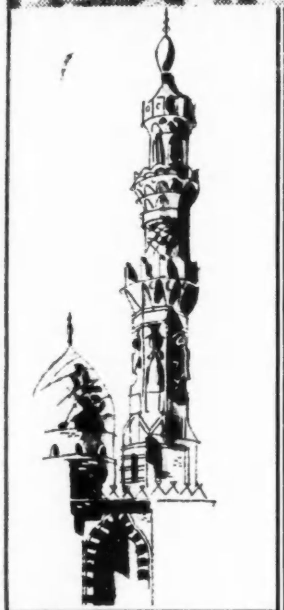
▶ The White House has a farm program of sorts but it has run into the same problem with it that it encountered with reciprocal trade agreements. The man who finally accepted the burden of sponsorship, Rep. William Hill, Colorado republican, uttered the kiss of death: "I do not support it." Another republican, Rep. Charles B. Hoeven of Iowa, head of the House GOP Caucus and a member of the committee on agriculture, pushed the program closer to obscurity with: "I think I can say no bill with 60 per cent of parity supports will ever come out of this committee." To which Republican Sid Simpson of Illinois, added: "I'll never be for anything like that."

▶ For a comprehensive course in union busting and Taft-Hartley Act evasion, employers may be referred to the case of Field Representatives Federation vs. AFL-CIO. FRF is composed of organizers for AFL-CIO who took seriously the suggestion of the amalgamated unions that the best way for the workingman to improve his lot is to organize and engage in collective bargaining process. Better wages and improved working conditions were the familiar objectives. But with the shoe on the other foot, AFL-CIO resisted. Then FRF went to the National Labor Relations Board as they had so often urged other groups of workingmen to do. Without waiting for NLRB to act on the petition, AFL-CIO cleaned house. About one-half the staff of organizers was pensioned off, or dropped from the payroll.

▶ FRF members work directly for AFL-CIO. Other organizers work for the units which make up the more-or-less unified labor front. The latter category of jobs is a form of patronage through which the big union bosses maintain their control over the unions. The "organizers" usually keep the union well organized in favor of the big chief, see to it that the right people go to conventions and say "yah!" If organizers for headquarters are permitted to form a union and make demands which the law will back up if reasonable and based on true collective bargaining, the framework of "big fellows" weakens. The fawning ends and the demands begin.

▶ FRF has pleaded with the Executive Council of AFL-CIO to sit down with representatives of the organizers and attempt to work something out. Many of those fired or pensioned have conducted themselves with such vigorous determination that they are not likely to find employment at their old trades in the industries they have buffeted for years. The language of the petition is touching: "We appeal to you, as men of decency, honor and integrity to right the wrong the staff has suffered. The way to do it is so simple. It is the way you have pressed on employers all of your lives—the simple matter of employer representatives meeting with employee representatives to resolve the problems which might exist." At last report, no relief.



the STRENGTH of the West in the Middle East

—*Nasser does not hold all the trumps*

BY JOHN H. LIND



MORE momentous events have taken place in the Arab world in the last thirty days than at any time since the Suez Canal crisis fifteen months ago: Egypt and Syria have fused into a new country, the United Arab Republic; Iraq and Jordan have followed suit by forming the Arab Federation; The Soviet Union has made its largest loan to the Middle East by giving Egypt $175 million; and the Algerian independence struggle has now officially changed from a French domestic issue into an international one.

There is an interconnection between all these developments, and in order to appraise them correctly they must be viewed together against the background of the entire political and economic situation in Western Asia and North Africa.

Let us start by focusing on the Egyptian-Syrian merger. This has been given a great deal of publicity in the West, and is generally regarded as a major victory for the Egyptian dictator Abdel Gamal Nasser. Though there is some truth in this version, it is a considerable oversimplification. For, the founding of the United Arab Republic has created at least as many new problems for the Middle East's most dynamic and ambitious leader as it has solved.

Nasser is, of course, fully aware of the tremendous psychological impact of the idea of *union* in the Arab world. One single independent Arab nation has been the dream of all Arabs with any political awareness ever since the days of the Turkish hegemony over the Middle East. The foundation of the Arab League in 1945 was the first concrete steps towards this goal; the common anti-Israel policy among all Arab nations was the second. Yet, neither of these was enough to overcome the many basic cleavages which separate the various Arab nations from each other.

Now, Nasser, whose prestige in the Middle East had been somewhat dented by the heavy losses inflicted upon his army by the Israelis in 1956, has hitched his star once again to the irresistible dream of Arab unity in the hope that it will both increase his domain and bring him one step closer to the realization of his ultimate ambition—to become the ruler of the entire Arab world.

The Weakness in the Egyptian-Syrian Union

Whether the union of Egypt and Syria was such a step is actually quite debatable. It may well turn out to be the biggest stumbling block to Nasser's further expansion plans. For the United Arab Republic has been founded upon such basic violation of the principles of unification and federation and gives Egypt such complete and utter dominance over Syria that other Arab countries may well prefer their present state of precarious independence to the kind of merger offered them by Nasser.

Here is what happens to Syria under the merger charter: It will lose its identity completely; the capital of the new country will be Cairo; its chief executive will be the President of Egypt who will personally *appoint* all members to the 400-seat Assembly of the United Arab Republic; Syria must adopt the same one-party system which exists in Egypt; finally, Syria will lose its seat in the U.N. and all other international rights as an independent power. In theory, she will, in return for abdicating her independence, have a voice in the determination of the United Arab Republic's destinies. However, in practice it seems quite clear that the Egyptian ruling circles have no intention to share their power with anyone else. Thus, for all intents and purposes, Syria has now been relegated to the status of an Egyptian province. It will not even receive any significant economic benefits from the merger, since the Egyptian and Syrian economies are not complementary but are both capital-short, non-industrialized and must rely for most of their foreign exchange income on cotton exports. Furthermore, since they have no common border, or even direct land connection, even the establishment of a common market between the two countries will have little effect on the trade pattern of either of them.

Why Syria Accepted Unification

What, then, has caused the Syrian rulers to request the merger? For one thing, they undoubtedly expected a better deal from their ally in Cairo than they got. But, as Nasser knew, they were not in a bargaining position. Syria has been governed for the last year by a coalition of the ultra-nationalist Baath (resurrection) Party and the Communist Party. As is usual in such coalitions, the Communists were getting the upper hand and made preparations to take over completely. Obviously, the Baath Party could not ask support from the West which it had traditionally attacked in terms no less scathing than the Communists; in fact, common hate for the West was the cement keeping the coalition together. Thus, the only place it could turn to was Cairo which, despite its pro-Soviet foreign policy, had managed to suppress all domestic communistic activity. Since the fusion introduces the Egyptian one-party system in Syria too, it means the end of the Middle East's only openly operating Communist party. This has already been grudgingly acknowledged by Khaled Bikdash, Syria's Communist leader who has taken himself and his family to the Soviet Union where, like so many Communist leaders before him, he will wait for his chance.

This does not mean that the Soviet Union has changed its hitherto ultra-friendly attitude towards Cairo. The USSR's prime interest in the Middle East is not to establish local Communist regimes although, eventually, it will do that too) but to make the West's position as untenable as possible by supporting all anti-Western movements. Thus, the phyrric victory of the Baath nationalists over the Communists in Syria will not bring about a diminution of Soviet economic and political support for Nasser's regime.

Nasser Faces Unrest in Syria

Nevertheless, Nasser's position in the Middle East has probably been weakened by the Egyptian annexation of Syria. For one thing, not every non-Communist in Syria is happy about the end of Syrian independence which had been achieved just 13 years ago after bitter battles with the French army. According to reports from neutral sources in the Middle East, scores of opponents, particularly among the Army officer corps, had to be arrested. Of course, the Syrian government has charged that the U.S. had financed the opposition and that Turkey and Israel were also involved in it. But the fact is that besides Arab nationalism there is also Syrian nationalism. The opposition to the merger is a manifestation of the complete suppression of this more local type of nationalism. It is likely to give Nasser quite a few headaches in the future.

The Other Arab States

But the biggest blow to Nasser has been the reaction to the United Arab Republic in the rest of the Middle East. Within two weeks after he had swallowed up Syria, Iraq, the area's most pro-Western country, replied by merg-

The Countries of the Middle East

	AREA Sq. Miles	Sq. Kilometers	POPULATION	CAPITAL
EGYPT	381,101	1,000,000	23,410,000	Cairo
(Cultivated Area)	(13,606)	(34,824)		
TURKEY	296,185	767,119	24,797,000	Ankara
IRAN	629,343	1,630,000	22,307,000	Teheran
IRAQ	168,114	435,415	5,200,000	Baghdad
ISRAEL	8,108	21,000	1,924,000	Jerusalem
SYRIA	72,331	187,337	3,970,000	Damascus
LEBANON	4,015	10,400	1,425,000	Beirut
JORDAN	37,264	96,513	1,400,000	Amman
CYPRUS	3,572	9,251	526,000	Nicosia
ARAB PENINSULA	1,228,916	3,182,892	12,203,000	
SAUDI ARABIA	927,026	2,401,000	6,000,000	Ryadh
YEMEN	75,290	195,000	4,500,000	Sana
ADEN Colony	80	207	100,000	Aden
ADEN Protectorate	121,995	315,968	650,000	
MUSCAT OMAN	82,008	212,400	550,000	Muscat
TRUCIAL OMAN	5,792	15,000	76,000	(6 Principalities)
KUWAIT	8,000	20,719	200,000	Kuwait
QATAR	8,494	22,000	17,000	Doha
BAHREIN	231	598	110,000	Manama
MIDDLE EAST TOTAL	2,833,949	7,339,927	97,162,000	

The figures (area and population) for Iran, Syria, Jordan, and the Arab Peninsula are estimated.

ing with Jordan into the *Arab Federation.* The difference betwen these two mergers is a study in contrasts which no Arab is likely to forget. In the first place, the union between Iraq and Jordan is economically, geographically and ethnologically a natural development. It will create a single new land area from the Turkish border to the Gulf of Aqaba. Iraq, as a large oil producer, has a capital surplus which can be invested in Jordan which has almost no capital. Jordan, in turn, has a labor surplus which could be syphoned off by Iraq for its billion dollar economic development scheme, financed out of oil revenues. Thus, Jordan whose population has about the same 1/5 ratio to Iraq that Syria's population has to Egypt, is bound to benefit much more by merging with Iraq than Syria does by uniting with Egypt. Yet, Jordan will have complete equality with Iraq in the new state. The two countries will become a true co-dominium in which Baghdad and Amman will be co-equal capitals, with the Cabinet meetings (in which the two countries will be equally represented) held half the year in one capital and half the year in the other. Furthermore, each country will not only retain its own Parliament, but will *elect* from among its members an equal number of delegates to a federal Parliament. The senior king in the federation will be King Faisal of Iraq, but his cousin King Hussein will keep his throne in Jordan and will have crown prince status in the federation.

The Two Types of Merger

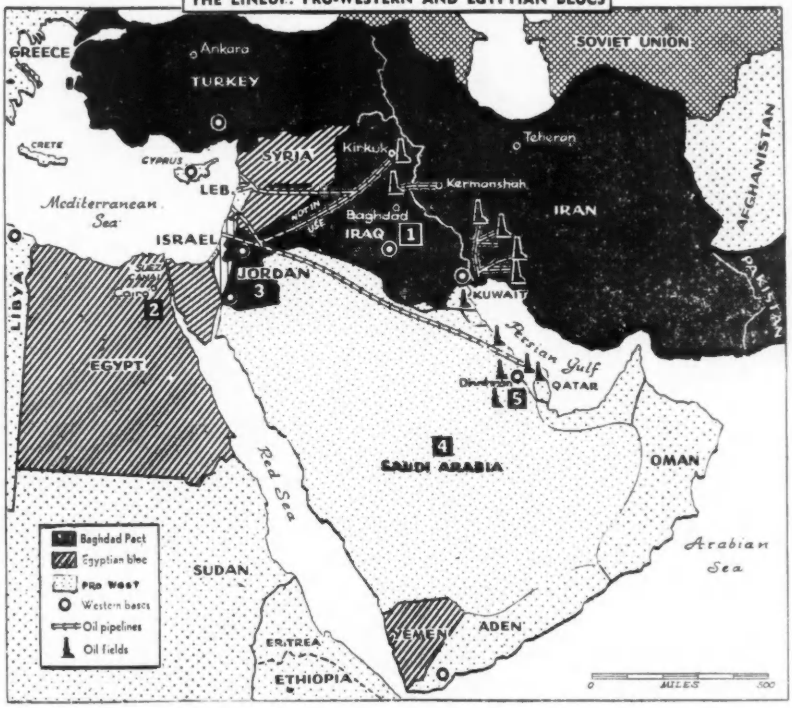
Thus, the Arab peoples were treated almost simultaneously to a sampling of two types of mergers: one unnatural annexation, reminiscent of the Anschluss, in which the smaller country totally lost its identity and one genuine federation of two countries on a completely co-equal basis, regardless of size or population strength. The comparison makes Nasser's United Arab Republic look "almost like a fiction besides the hard practical realities of the new Hashemite federation", according to an astute local observer.

Nasser's Yemen Problem

The fact that *Yemen* will probably join the United Arab Republic will not help to restore Nasser's loss in prestige. For Yemen is likely to prove more of an embarrassment than an asset to Egypt. Aside from the fact that it has no common border or land connection with Egypt and that it is so abysmally poor and backward that by comparison Egypt is a rich, progressive country, it is probably the most medieval and most absolutist monarchy anywhere in the world. This country will now submit to the overall leadership of Col. Nasser who has overthrown the far more progressive King Farouk and is the Middle East's foremost exponent of republicanism and anti-feudalism. Since constitutional reforms in Yemen are pretty much out of question, Nasser's association with it may well lower his prestige still further among the young intellectuals and nationalists in the Middle East who have always looked to Nasser to liberate the Middle East of the type of regime represented by the Imam of Yemen. For the Imam, on the other hand, the reason for joining the new country is quite understandable. His main ambition in life is to drive the British out of the Aden Protectorate which borders on Yemen. If he can directly involve Egypt and Syria in this undertaking, his membership in the United Arab Republic will have been well worth the price of admission.

How have all these dynamic changes affected the position of the West in the Middle East? As far as can be seen at this early date, they have weakened it in some aspects, but have considerably strengthened it in others, with the net result that our overall position is probably stronger now than it was just before the series of mergers.

THE LINEUP: PRO-WESTERN AND EGYPTIAN BLOCS



Where Does the West Stand Now?

On the negative side is the fact that an uprising of pro-Western elements against the present government of Syria, which had been a distinct possibility, has now much less chance of success, since it would be quelled by the Egyptian government. Thus, Syria's strong hostility to the West is likely to continue for the foreseeable future. Furthermore, little Lebanon, completely engulfed by Syria, will come under increasing pressure to join the United Arab Republic. This would be a distinct loss to the West, since Lebanon—the only Arab (*Please turn to page* 714)

PAPER INDUSTRY Under Adjustment

BY PHILIP DOBBS

Troubled by overcapacity, a general decline in consumption caused by the business recession and the continued rise in wage rates, paper manufacturers face a trying year of adjustment in 1958. The profit squeeze will become intensified, because of the difficulty in passing along to customers new rises in freight, wages, etc. and consequently some paper companies may be forced to reduce dividends, in order to conserve working capital.

In the future, the paper industry will again be able to demonstrate that it is a growth industry, with a renewal of the gains in volume and earnings shown since the end of World War II. But in the months immediately ahead, the industry's price structure will be sorely tested under the fire of increasing competition for available business.

Paper manufacturers generally feel confident that they will be able to surmount the intensified cost absorption problem that will arise this year when wage settlements are reached with the unions. But until the general economy reverses the present decline, paper companies will not have completed their test, although it is apparent that the industry has matured greatly in the last ten years. In this period, the process of integration has placed control of the industry in stronger hands. It may well be, therefore, that the industry with its high state of mechanization will be able to obtain moderate price relief to offset, in part at least, higher costs which are shaping up. But the conservative investor must still await proof that the present recession will not disrupt dividends and financing plans.

Such conservatism is called for since the demand for paper has apparently met with a secondary decline since the end of 1957. This has resulted not only from inventory cutting by consumers, but from declines in consumption of paper by basic industries such as automobiles, appliances and textiles. The operating rate of paper companies, which had recovered to over 90 per cent during the pre-Christmas season, had fallen by early February to less than 84 per cent of capacity while board producers were operating at only 82 per cent. Such a decline is certain to result in sub-normal earnings reports for the first quarter, and possibly for the rest of 1958 particularly in view of the rise in the industry's break-even point through cost absorption since 1956.

Beginning in the second half of 1956, the paper industry sustained a sharp dip in demand which was caused almost entirely by inventory cutting on the part of consumers. This dip actually preceded the general decline in the economy. It came because the enormous paper expansion program of 1955-1957 enabled the industry to meet all requirements at a time when customers had stocked up heavily to avert shortages.

Statistical Data on Leading Paper Companies

	Net Sales 1956 (Millions)	Net Sales 1957 (Millions)	Net Profit Margin 1956 %	Net Profit Margin 1957 %	Earned Per Share 1956	Earned Per Share 1957	Dividend Per Share 1956	Dividend Per Share Indicated Current Rate	Price Range 1956-1957	Recent Price	Div. Yield
Champion Paper & Fibre	$ 84.7[1]	$ 84.2[1]	8.7%[1]	7.1%[1]	$1.62[1]	$1.31[1]	$1.15	$1.20	38 -31½	36	3.3
Contain Corp. of Amer.	276.0	256.1	6.6	5.6	1.71	1.36	.81	1.00	20⅞-16½	18	5.5
Crown Zellerbach	462.3	460.6	10.8	8.2	3.53	2.66	1.80	1.80	58½-40⅛	45	4.0
Federal Paper Board Co.	39.4[2]	40.8[2]	7.5[2]	6.7[2]	3.32[2]	3.11[2]	1.80	2.00	36⅞-29	31	6.4
Fibreboard Paper Products	94.8[2]	96.2[2]	4.6[2]	3.4[2]	2.93[2]	2.07[2]	1.05	1.20[4]	32 -19¾	25	4.8
Great Northern Paper	51.3[2]	50.4[2]	9.2[2]	5.2[2]	4.34[2]	2.30[2]	3.00	2.40	85 -45⅛	46	5.2
Hammermill Paper Co.	36.7[2]	33.3[2]	8.2[2]	4.7[2]	2.86[2]	1.38[2]	1.50[4]	1.50	45¼-20½	24	6.2
International Paper	731.4[2]	715.5[2]	9.2[2]	7.5[2]	5.48[2]	4.38[2]	3.00[4]	3.00[4]	109½-82½	90	3.3
Kimberly-Clark Corp.	155.1[1]	163.5[1]	8.1[1]	7.6[1]	1.49[1]	1.47[1]	1.80	1.80	50½-40½	49	3.6
Lily-Tulip Cup	55.8[2]	61.7[2]	8.9[2]	8.3[2]	3.18[2]	3.26[2]	1.60	1.80	67½-50	65	2.7
Mead Corp.	145.6[2]	148.7[2]	6.9[2]	6.2[2]	2.74[2]	2.28[2]	1.35[4]	1.60	40½-33	35	4.5
Minnesota & Ontario Paper	78.0	82.0	9.9	7.2	3.01	2.31	1.40	1.60	35¾-20¾	24	6.6
Oxford Paper	61.6	58.6	7.5	5.7	5.43	3.05	1.85	2.00	43 -24	29	6.8
Rayonier	137.8	117.5	10.1	5.3	2.65	1.13	1.40	.80	34⅜-14	16	5.0
St. Regis Paper	369.0	360.0	6.8	5.8	3.04	2.50	1.90	1.40	48¼-23½	30	4.6
Scott Paper	200.0[2]	204.6[2]	8.2[2]	7.7[2]	2.05[2]	1.97[2]	1.85[2]	2.00	64½-52	56	3.5
Sutherland Paper	64.6	61.0	6.3	5.1	3.85	2.93	2.00	2.00	43¼-27¼	33	6.0
Union Bag-Camp Paper	163.0	160.7	13.2	11.2	3.02	2.49	.90	1.20	37⅛-26¼	31	3.8
W. Virginia Pulp & Paper	187.6[3]	191.2[3]	8.7[3]	6.2[3]	3.19[3]	2.31[3]	1.55	1.60	47½-32	32	5.0

1—6 months.
2—First 9 months.
3—Year ended October 31.
4—Plus stock.

(Note:) Both Dixie Cup (6/19/57) and Marathon Corp. (12/3/57) sold Co. assets to American Can Co.

Champion Paper & Fiber: Important producer of white and book paper; has conservative dividend covered by wide margin, but estimated earnings around $2.50 a share, will be somewhat below last fiscal year earnings of $3.14. **B3**

Container Corp.: Largest unit in the paperboard container industry; sales have been outrunning gains in gross national product. Diversified output in container field. Current decreased output for paper board points to lower net in 1958. **B3**

Crown Zellerbach: This strong West Coast producer, second largest in the industry, has invaded Middle West markets. Net in 1957 was $2.66 a share, against $3.53 in 1956, despite only slight dip in dollar sales, reflecting sharp profit squeeze. **A3**

Federal Paper Board: This boxboard producer has managed to hold earnings even to 1956 level through first nine months, indicating strong sales position and low break even point. **B2**

Fiberboard Paper Products: This West Coast producer has sold high cost New Jersey plant which should help profit margin in 1958 and offset lower sales. **B3**

Great Northern Paper: Drought caused severe power shortage in 1956 to this newsprint company contributing to sharp drop in earnings to around $2.30 a share in first nine months, against $4.34 in 1956. More water now available should assure better production and earnings in 1958. **B3**

Hammermill Paper: Largest producer of fine papers, company's net dropped sharply to about $2.04 a share largely due to a strike last year and inventory adjustment by customers. Should improve moderately on this in 1958. **B3**

International Paper: Largest producer has shown dip in earnings in 1957. Big expansion program in Southern newsprint. Earnings have been fairly well maintained, with $5.70 indicated for last year, against $6.84 in 1956. **A3**

Kimberly-Clark: Strong position in consumer specialties, such as Kleenex and Kotex, enabled company to avoid profit decline, with net of $2.90 a share in 12 months ended Oct. 31 last. **A2**

Lily-Tulip: Estimated net of $4 a share for 1957, against $3.88 in 1956. Barring major recession, shoud hold earnings relatively stable, owing to strong consumer product position. **A2**

Mead Corp.: Company has strengthened position in container field, thus controlling new outlets for its board products. Lost Crowell-Collier business in 1957 and estimated net dipped to $3.00 a share in 1957 from $3.65 in 1956. **B3**

Minnesota & Ontario Paper: Despite higher dollar sales, profit squeeze on newsprint has cut earnings. Sales of its Insulite building board should gain if home construction improves. **B3**

Oxford Paper Co.: Net showed sharp drop to $3.05 a share in 1957, against $5.43 in 1956, reflecting higher costs. Makes book and magazine paper. **B3**

Rayonier: Following aggressive expansion in pulps for textiles, tire cord and cellophane, company has sustained sharp drop in volume and earnings. Net for full year 1957 amounted to $1.13 per share against $2.65 for 1956. **B3**

St. Regis: Third largest paper maker, St. Regis is tapering off on aggressive expansion program. Net last year of $2.50 a share may be improved somewhat this year, if profit squeeze is not intensified. Has facilities for gain in volume of 60 per cent by 1960. **B3**

Scott Paper: Emphasis on consumer products have kept earnings around $2.55 a share, (estimated) against $2.78 in 1956. Has shown great stability plus growth in the past. **A3**

Sutherland: Maker of folding cartons has sustained only moderate dip in earnings in 1957. **B3**

Union Bag-Camp Paper: Leading producer of diversified kraft products showed dip in net last year to $2.49 a share against $3.02 in 1956. Bag products usually resist recession well. **B3**

West Va. Pulp & Paper: Increased integration has improved earnings potential. Showed net of $2.31 a share in fiscal 1957, against $3.19 in 1956. Current fiscal may show dip to around $2. **A3**

Ratings: **A—Best grade.**
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Following this inventory cutting cycle, which ended in the first half of last year, the paper industry made a partial comeback in the second half of 1957, although it failed to show the growth which it had manifested in the period from 1954 to 1956. Now a new decline in production, caused by decreased consumption, has begun.

For 1957 as a whole, output of paper and board dipped to 30.7 million tons, or about 2 per cent less than the all-time peak reached in 1956. The industry's capacity meanwhile rose from 31.9 million tons a year at the end of 1956 to 34.1 million tons at the end of 1957. A further rise of between 1 and 2 million tons in annual capacity appears unavoidable this year, in spite of efforts of paper companies to stretch out their programs.

Demand in 1958

Indicated demand for paper this year, as shown by the drop in the industry's operations, appears to be around 29.5 million to 30 million tons, assuming that business does not fall below the January-February level during the rest of this year. The current rate of output, between 80 and 85 per cent of capacity, would work out to annual production of only 28.5 million tons. But assuming that part of the recent decline in output has been caused by inventory cutting, it is possible that production this year could go as high as 30 to 30.5 million tons, although some improvement would be needed in the business climate to bring this about.

Projections have been made by industry sources and by the Government that by 1965, output will be 40 per cent higher than in 1956, or around 43 million tons, to meet the demand, assuming that the economy is prosperous, and growth in demand continues at the postwar rate. But such long range projections can sometimes show important errors, as has been demonstrated by what has happened to the demand for appliances, automobiles and other consumer products during the last two years. In view of such disappointments, it is questionable whether investors should begin to discount such future growth, particularly at a time when the industry's operating rate and earnings have shown the second dip within two years.

The big imponderable at the moment is the pricing question. If a new wave of inflation were to sweep the country, as a result of large wage rises, easy money, tax cuts and an unbalanced budget, paper prices would undoubtedly be swept along.

Such a development, however, does not seem likely for the immediate future. Meanwhile, paper companies will have to face the realities of the marketplace, where marginal paper producers may start to shade prices in order to book orders. In any event price rises will be more difficult to maintain than in 1956 and 1957.

The Profit Squeeze

The extent of the profit squeeze last year is shown by annual reports of some of the leading companies which have already appeared. The industry's profits in 1957 were 18 per cent lower than in 1956, according to an estimate by the Federal Trade Commission. Since tonnage was down only 2 per cent and dollar sales of the industry were off only about 1 per cent to around $10.5 to $11 billion last year, it is clear that the industry has failed to offset rising costs in labor, freight and materials by a substantial margin. Higher depreciation charges and starting up costs on new mills were also factors in reducing profits.

Increases in prices of various grades of paper last year ranged from nothing at all on wrapping tissue to 4.2 per cent for printing paper, A-1 machine finish. The average increase for the group of paper and board products in the Bureau of Labor Statistics index was only 2.6 per cent or less than one-half of cost rises. Most of these price rises, moreover—such as on wood pulp, paperboard and paper bags did not occur until October, and as a result, the squeeze was worse prior to such price relief. Fourth quarter earnings, however, were sweetened by the price rises.

This year, new cost rises are coming into the picture and the operating rate is lower than the average for last year. A minimum wage boost of 7½ cents per hour—the amount of the settlement offered by the British Columbia mills appears likely to be effected in May and June in this country. Strikes may occur at paper mills here, if the union demands are too high, and mills resist the unions.

This means, that if the industry is to avoid a damaging decline in profits, with possible attendant reduction in dividends, it will have to raise prices of paper at that time.

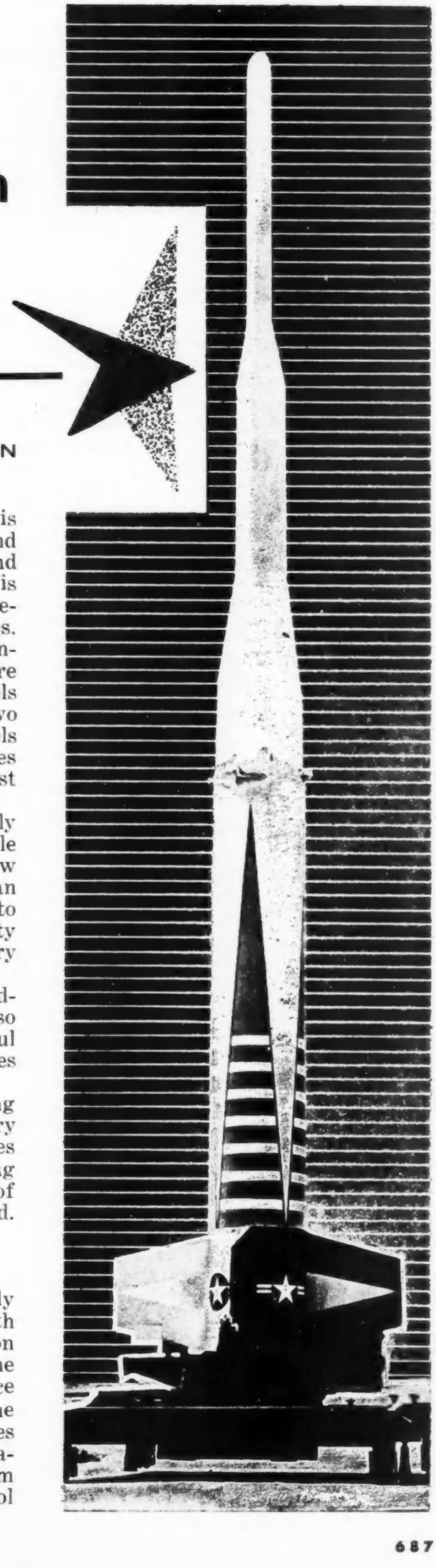
This would come in the midst of a period when the automobile industry will probably be presenting a united front against a new inflationary rise in wages in its industry, and at a time when the printing and publishing industries will be meeting severe competition from other media. Hence, it seems likely that at best, the paper industry will be able to obtain only partial price relief for new labor costs at that time. It will have to show strength prior to then in industry solidarity to assure such partial relief.

Earnings and Dividend Changes

Already, several paper companies have had to reduce their dividends, owing to the combined effects of the profit squeeze and the large scope of their capital investment programs. St. Regis, which had slowly boosted its quarterly dividend 5 cents at a time to 50 cents from 1954 until 1956, decided to trim its payment early last year to 35 cents at one step. Although the dividend was more than covered by last year's earnings of $2.50 a share, (1956 earnings were equal to $3.04) St. Regis directors felt that the cut was desirable. A large factor in this dividend cut was the action of the company in acquiring two large lumber companies, J. Neils Lumber and the St. Paul and Tacoma Lumber Company, to assure pulp supplies for expansion in the 1960s. With lumber earnings at a low level, the effect was to dilute St. Regis share earnings for the next year or two. For 1958, assuming business will be equal to that of 1957, St. Regis is forecasting earnings of $2.75 to $3 a share, with the indicated improvement over 1957 arising from slightly better results of the lumber companies, and increased production from new mills.

This year, Brown Company has sliced its dividend to 15 cents from 25 cents, citing the drop in earnings that had resulted from the cost-price squeeze. Bemis Brother Bag Company this year has cut the dividend from 50 cents to 40 cents quarterly and this may not be too secure. (*Please turn to page* 712)

Companies with a Stake in ZIP FUELS



BY HAROLD M. EDELSTEIN

MAN'S SEEMINGLY never-ending quest to get nowhere faster is spurring a concerted industrial drive to produce new and exotic fuels from chemicals, metals, solar energy, electricity and nuclear energy. But whether the new field will be a bonanza is still conjectural and a source of continuing concern for management teams in the chemical, petroleum and aircraft industries.

The reasons for the concerted efforts now being made are essentially military, but what disturbs industry leaders is that there seems to be little potential civilian market for most of these fuels once they are developed. Actually, our Explorer satellite and the two Russian Sputniks were launched with "conventional" rocket fuels developed by researchers during the thirties—and these mixtures of alcohol or kerosene and oxygen are adequate to perform most of today's rocket feats, short of manned space ships.

But from a military standpoint today's rocket fuels are highly unsatisfactory. In a liquid state they require that the missile contain a veritable maze of plumbing to handle the intricate flow of the fuel's ingredients into the engine's firing chamber—and an uncomfortably long period of time is eaten up pumping fuel into the missile before take-off. In addition, because of the complexity of the mechanisms, time consuming count-downs are necessary before the rocket can be launched with any degree of certainty.

The solid fuels, on the other hand afford the tremendous advantage of simplicity and can be fired immediately, but they also have their drawbacks. For one thing they are not as powerful as the liquid propellants, and for another, their burning properties are less stable than the liquids.

To overcome these difficulties, research is progressing along several lines in literally scores of laboratories across the country (and probably in Russia as well). Moreover, several companies actively engaged in one or more areas of rocketry are beginning to pool their resources and know-how to speed up the process of development and to cut down the tremendous investment required.

New Companies

Within the last month, for example, **Phillips Petroleum** an early pioneer in hydrocarbon-based rocket fuels, joined hands with **North American Aviation** to form Astrodyne, Inc. The combination of Phillips' fuel knowledge and North American's missile engine technology—centered in its Rocketdyne Division—should enhance the chances of perfecting a suitable solid fuel. Along the same lines, **Thiokol Chemical**, a pioneer in solid-fueled rocket engines has recently teamed with **Callery Chemical**—one of the few companies actually preparing to produce new fuels—in a joint program to develop boron-based solid fuel engines. More recently, Thiokol

announced its intention to merge with Reaction Motors (50% owned by Olin-Mathieson), one of the nation's principal experimenters in liquid-fueled engines.

In addition to these new combinations, the nation's producers of boron—the raw material for the promising borane fuels—are entering into joint developmental ventures with several important companies. **American Potash** and **Food Machinery & Chemical** have become partners with **National Distillers & Chemical** in AFN, Inc., in an attempt to perfect new power sources; and **Stauffer Chemical,** another boron producer has teamed with **General Tire's Aerojet-General,** a major solid fuel rocket manufacturer.

Small Output of Zip Fuels

All of these new ventures have barely begun to take shape, however. The principal source of exotic fuels in the near future, therefore, will emanate from a few new facilities scheduled to begin producing in 1959. The Air Force and the Navy have invested $100 million of public funds in installations to be run by **Olin-Mathieson Chemical** and **Callery Chemical** (25% owned by Gulf Oil) for the production of borane fuels, but this high investment is going to bring small returns in terms of output. The total daily production of these plants would be sufficient to provide about one-quarter of the total fuel load for the giant bombers of today, and would be insignificant in a major missile. Actually an outlay of several billions of dollars would be needed to obtain production capable of servicing the requirements of an operational bomber unit.

For experimental purposes, however, output will be adequate, especially if the attempts to build efficient, boron-based solid fuel engines are to be crowned with success.

Both Callery and Olin-Mathieson are in a better position than most researchers in the field, in that a commercial market can be envisaged for boron fuels. Of course no aircraft has ever been flown with only a chemical fuel—and none will be until North America Aviation's prototype WS110 chemical bomber has been perfected, but the military has employed the new fuel as an additive to regular jet fuel. Used in this way, the efficiency of a standard jet engine can be improved by as much as 40 per cent—a significant amount that the world's airlines are well aware of as they swing over to jet plane operation.

Thus a potential civilian market exists, but costs will have to come down considerably before the boranes are commercially feasible.

Newer Fuels Needed

The boron fuels answer several present needs, and have the most important advantage of becoming available soon. But from the military viewpoint—and from the standpoint of missile design—we must go far beyond the boranes before manned-space flight, manned-satellites and trips to the moon can become a reality. Already rockets are reaching the unwieldy stage in terms of size and bulk, and they will get worse before they get better. The Vanguard, for example, is seventy-two feet long, and requires three separate rocket engines to deliver a twenty pound sphere perhaps a thousand miles into space. To increase the payload would necessitate an even larger rocket, more engines and much more fuel. The solution therefore lies in more powerful propellants that can do the job with less bulk.

Scientists have long known that the theoretical limits of chemical propellants are about 400 pounds of thrust for each pound of fuel burned per second. But we haven't come close to that kind of performance yet. Our standard liquid fuels have a thrust of about 265; the solids about 250. Better results could be achieved with hydrogen as the basic fuel, but it has so far proved impossible to handle. Berrylium is next best but poses almost as many problems as hydrogen and is highly poisonous to boot. Boron is next in line, explaining its popularity today, but it can't compare to the potential power of the others. Nevertheless boron can be worked with comparatively safety, and that's an important advantage.

Hope has not been lost, however, for hydrogen as a propellant and the Air Force has numerous research projects experimenting with liquid hydrogen.

Importance of Oxidizers

Paralleling the search for more potent fuels is the quest for better oxidizers than oxygen. **Allied Chemical** and **Pennsalt Chemicals** are active in fluorine research, considered one of the best potential oxidizers and report substantial progress. One of fluorine's principal drawbacks is its highly corrosive properties, but recent success in shipping liquid fluorine has raised hope that this disadvantage has been overcome.

The search for better oxidizers is vital from a military standpoint and is attractive to chemical companies because there are commercial applications for much of the fruit of their labors. As a matter of fact, the producers of liquid oxygen, the most frequently used oxidizing agent, have found the rocket field a profitable adjunct to their former oxygen products business. **Air Products,** a small but aggressive producer has developed a miniature oxygen producing plant that can be set up at a missile installation, obviating the need for shipping the liquid over long distances. The company has installed several units already and may be called upon to place more in operation in NATO countries.

The Linde Air Products Division of **Union Carbide,** the largest producer of oxygen, is the biggest supplier for the missile program, but **Air Reduction** and **National Cylinder Gas** also provide substantial amounts that contribute handsomely to profits.

Profit Potential

Outside of the oxygen producers, there are few actual profits being reaped from the zip fuel field. Olin-Mathieson is a major producer, and one of the original developers of hydrazine, an older standard rocket fuel, but the company derives more financial benefits from non-fuel uses for the chemical. Some profit may be forthcoming for both Olin and Callery when their boron fuel plants are completed, but significant profitability seems a long way off.

Thiokol Chemical, before its proposed merger with Reaction Motors reaped virtually all its profits from the field of rocketry and especially from solid fuels. However, it must be emphasized that Thiokol is a small company whose total activities would not

have a significant impact on the overall operations of a major company operating in the same field. Nevertheless, Thiokol's stockholders have been well rewarded. Earnings bounded upward from 45¢ per share in 1953 to approximately $2.50 per share in 1957. Moreover in addition to several stock dividends, holders have watched the price of their stock jump from about $12 two years ago to over 80 in 1957, before a two-for-one stock split.

It seems clear therefore, that regardless of the ultimate profit potential in these new fuels, there is ample speculative appeal.

Of course, the nation's three borax producers are benefiting from the new source of demand for their product. **U.S. Borax & Chemical,** the world's largest producer of borax recently completed a $20 million conversion to open-pit operation and established a new million dollar research laboratory to explore new uses for its product. Like Thiokol, the sudden interest in rocket fuels skyrocketed U.S. Borax's stock from about $31 per share in 1956 to a high of 76¾ in 1957, but the realization that large-scale demand for fuel purposes was still a way off soon burst the bubble. Nevertheless at 40 the stock is still selling at 35 times estimated 1957 earnings.

Companies with a Stake in Zip Fuels

	Principal Line of Business	Type of Fuel	Liquid or Solid Propellant
Air Products	Industrial Gases & Equipment	Liquid Oxygen	Liquid
Air Reduction	Industrial Gases & Chemicals	Liquid Oxygen	Liquid
Allied Chemical & Dye	Chemicals	Nitric Acid	Liquid
		Liquid Fluorine	Liquid
Amer. Potash & Chem.	Producer of basic chemicals	Boron, Lithium	Solid
Beryllium Corp.	Beryllium products	Beryllium	Solid
Brush Beryllium Co.	Produces beryllium alloys	Beryllium	Solid
DuPont	Top ranking chemical producer	Nitric Acid	Liquid
Food Machy. & Chem.	Diversified producer of machinery and chemicals	Boron	Solid
Foote Mineral	Industrial ores and chemicals	Lithium	Solid
General Dynamics	Aircraft mfg., submarines and electronics	Liquid Oxygen	Liquid
General Electric	Leading factor in electrical equipment	Boron	Solid
Gulf Oil	Large international oil unit	Boron	Solid
Hercules Powder	Diversified chemicals, explosives	Boron	Solid
		Nitric Acid	Liquid
Lithium Corp. of Amer.	Lithium compounds	Lithium	Solid
Metal Hydrides, Inc.	Calcium, Zirconium, Titanium	Boron	Solid
		Lithium	Solid
Mine Safety Appliances	75% ownership Callery Chem. safety appliances	Boron	Solid
National Cylinder Gas	Oxygen and acetylene gases	Liquid Oxygen	Liquid
National Dist. & Chem.	Liquor distiller, chemicals	Boron	Solid
Olin Mathieson Chem.	Chemicals, drugs and diversified products	Boron	Solid
		Hydrazine	Liquid
Pennsalt Chem. Corp.	Industrial chemicals	Liquid Fluorine	Liquid
Stauffer Chemical	Industrial and agricultural chemicals	Boron	Solid
Thiokol Chemical	Produces synthetic rubbers, plasticizers & chem.	Boron	Solid
Union Carbide	Major chemical, alloys, industrial gases and diversified products	Liquid Oxygen	Liquid
U. S. Borax & Chemical	Boron and potash products	Boron	Solid
Wyandotte Chem. Corp.	Basic chemicals, detergents	Boron	Solid

Stauffer Chemical and **American Potash,** the other borax producers also had substantial upswings and subsequent drops, but in each case the movement was not as feverish as U.S. Borax's. As mentioned earlier, both of these companies have already entered into joint research projects exploring the full potential of borax both as a fuel and as a base for other materials, but for the present, principal revenues will come from the sale of borax as a chemical and other standard chemical products.

Aside from these few instances, however, fuel production and research represents a relatively small part of the total operations of most companies in the field. **Union Carbide's** Linde Air Products Division is a notable exception along with **General Dynamic's** newly acquired Liquid Carbonic Division, but otherwise activities are confined essentially to research.

The Fuels of the Future

Oddly enough chemical companies have not streamed into the new field. Those companies such as **Allied Chemical, Hercules-Powder, Foote Mineral** and **Pennsalt Chemical,** that have been able to undertake fuel research in connection with their usual products have been quick to do so. But others have been reluctant to step in without government assurances of a ready market for their product if, and when, developed.

The principal stumbling block in the profits outlook for rocket fuels is that few business leaders—and not many scientists either—can visualize the space age as anything but a scientific curiosity for many years to come. As a result there is little desire to invest vast company sums in research for non-marketable products. It must be admitted that these fears are justified. For even a rocket to the moon, or a manned space satellite or two will not make space travel an every day occurrence.

Nevertheless, for military reasons many firms are proceeding with fuel research under government contract and the picture of what tomorrow's propellants will be like is beginning to emerge. The physical limitations of chemical fuels will rule them out eventually, but for the time being exotic compounds designed to make maximum use of hydrogen will command the attention of researchers in the hope of getting closer to the maximum 400 pound thrust level. At the same time parallel research will be done on metallic fuels which have the same upper limit, but are theoretically easier to handle and store.

Ultimately, however, the 400 pound thrust threshhold must be broken by nuclear power. A rocket powered by fissionable material could attain of thrust of 450 with a small amount of fuel. However no satisfactory fission engine has yet been devised, and when it is it will be extremely heavy because of the tremendous shielding against radiation that will be required.

But if the principal of the hydrogen bomb can be harnessed to a rocket, the fusion principal would create a thrust of over *(Please turn to page 718)*

THREE THUMBNAILS

—3 Attractive Stocks With Strong Earning Prospects

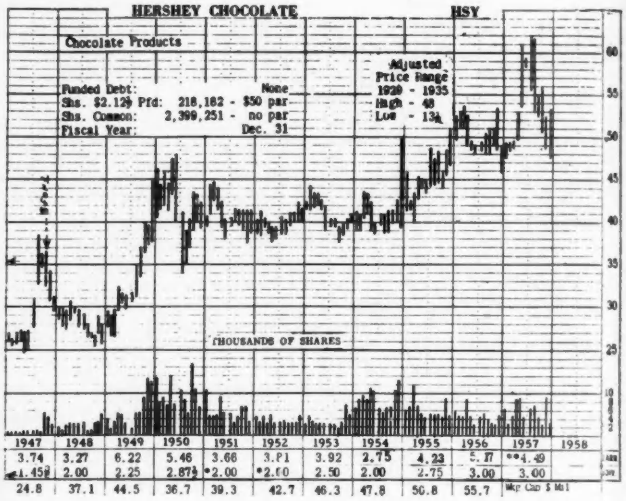
BY OUR STAFF

Since the beginning of 1958, the stock market has performed considerably better than the general economy. Nevertheless, the best action has been confined to those few groups that present the clearest earnings and dividend prospects.

The drug group, for example, enjoyed a particularly successful 1957, and can look forward to a prosperous 1958, as well. We have chosen Vick, from among the many excellent companies in the field because of its excellent long term record, the large share of income it derives from non-luxury proprietary items, and the growth potential inherent in research for new and profitable ethical drugs.

Hershey Chocolate we find attractive because of its exceptionally stable sales record and its long-time record of profitability and financial soundness. Some risk is involved in the fluctuating price of cocoa, but in recent years the company has been successful in minimizing the effect on earnings. Nevertheless, the high yield obtainable on this quality issue compensates for any risk incurred.

Bath Iron Works cannot boast the stability of our other choices, but in these days of declining backlogs and mounting overcapacity, the company stands out. New orders continue to flow in from the U. S. Navy, bolstering the unfilled order position to a point where full-scale production is virtually assured for the next two—and possibly—three years.



HERSHEY CHOCOLATE

BUSINESS: Hershey is the nation's largest producer of cocoa products including candy bars, baking chocolates, and various forms of powdered chocolate. Principal revenues are derived from consumer goods sales, but the company also manufactures and sells numerous products to the candy industry. All operations are conducted at the company's one plant at Hershey, Pennsylvania.

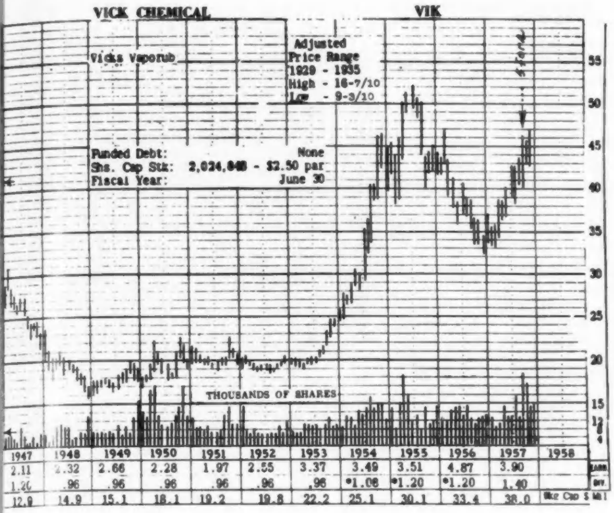
OUTLOOK: Sales jumped sharply after wartime restrictions were lifted in 1946 and have hovered around the $150 million mark for more than a decade. Demand is generally stable, but earnings tend to fluctuate with the price of cocoa, the principal raw material for Hershey's products. In the past, occasional sharp fluctuations in African or South American cocoa seriously impaired earnings, but since changing over to the LIFO method of evaluating inventories in 1950, variations in price have exercised a smaller impact on reported earnings. Sales probably advanced considerably in the year just ended. For six months ending June 1957, the last sales reported, the company showed a $4 million increase to $73.3 million, reflecting the success of instant cocoa as a consumer product. Net earnings for the nine months ending September 1957 jumped over 25 per cent to $4.49 per share and should cross the $6.00 mark when final figures for the year are released. In 1958 results in the early months of the year will reflect considerably higher cocoa prices, but the effect on earnings should be small. For the full year sales should continue upward as new products take hold, and as results are obtained from the company's new research programs in better and more attractive packaging. Financially, Hershey is exceptionally sound. There is no funded debt, although there are 218,182 shares of $2.12½ cumulative preferred stock ahead of the 2,399,000 shares of common. The common is 70 per cent owned by the Milton Hershey School in Hershey, Pennsylvania. In the year ending December 1956, Hershey's current ratio was a rousing 10.4 to 1 and cash items, at $23 million compared with total liabilities of only $6 million. Working capital was equal to approximately $23 for each share of common stock.

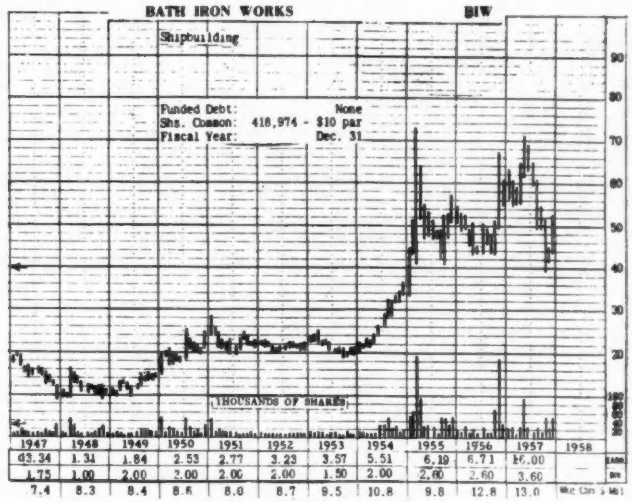
DIVIDENDS: In November 1957 the dividend rate was raised to 60¢ quarterly from the former 50¢ level. A $1.00 extra was declared payable at the end of the year. Payments have averaged over 60 per cent of earnings since 1930.

MARKET ACTION: The stock is not an active trader because of the small floating supply. Currently around 57, the price compares favorably with the 1957 range of 62 to 47½. Yield at present levels is 6.0 per cent.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1946	1956	
ASSETS	(000 omitted)		Change
Cash & Marketable Securities	$14,117	$22,802	+$ 8,685
Receivables, Net	2,871	4,990	+ 2,119
Inventories	16,208	33,812	+ 17,604
TOTAL CURRENT ASSETS	33,196	61,604	+ 28,408
Net Property	9,195	16,441	+ 7,246
Other Assets	718	224	— 494
TOTAL ASSETS	$43,109	$78,269	+$35,160
LIABILITIES			
Accts. Pay. & Accru.	$ 2,168	$ 4,505	+$ 2,337
Tax Reserve	5,728	14,954	+ 9,226
U.S. Tax Notes	—	dr 13,679	+ 13,679
Dividends Payable	1,022	116	— 906
TOTAL CURRENT LIABILITIES	8,918	5,896	— 3,022
Reserves	—	479	+ 479
Preferred Stock	13,567	11,165	— 2,402
Common Stock	729	4,201	+ 3,472
Surplus	19,895	56,528	+ 36,633
TOTAL LIABILITIES	$43,109	$78,269	+$35,160
WORKING CAPITAL	$24,278	$55,708	+$31,430
CURRENT RATIO	3.7	10.6	+ 6.9





VICK CHEMICAL

BUSINESS: For many years company's principal business was the manufacture and merchandising of packaged cold remedies under such well known names as "Vap-o-Rub", Vick's Cough Drops, etc. In recent years, however, the company has acquired several new subsidiaries in the drug, chemical, plastic and cleansing tissue field, so that today, cold remedies account for less than 40 per cent of sales. Vick's operation is world-wide in scope, and the $5.5 million invested overseas produces approximately 20 per cent of total sales.

OUTLOOK: Along with the rest of the drug and patent medicine industry, Vick has enjoyed substantial growth in the post-war years. Sales have almost tripled since 1946, rising from $37 million to almost $95 million for the year ending June 1957. Profit growth has been a bit slower, but has trended steadily upward. The $3.90 per share earned in 1956-7 compares with $2.07 per share in 1946. In the current fiscal year, sales and earnings performance has been particularly impressive. Sales advanced another 17 per cent between June and December 1957, with almost all product lines contributing to the growth. Profit margins continued to widen under higher sales, and net income advanced almost 38 per cent to $3.77 per share compared with $2.79 for the same period a year ago. For the balance of the fiscal year, smaller revenues from flu vaccine may keep growth at a slower rate, but both sales and earnings should run well ahead of last year's figures. Financially, Vick is exceptionally strong. The 2,019,000 shares of common stock represent the sole capitalization of the company. Moreover, despite a policy of financing acquisitions through retained earnings, cash items are still four times all liabilities, and 40 per cent of total working capital. At the end of the last fiscal year, all current assets exceeded total liabilities by over $37 million, for a current ratio of 8.7 to 1.

DIVIDENDS: Present dividend rate is 40¢ quarterly, affording a 3.1 per cent return at the current price of approximately 51½. Dividends have been paid consecutively since 1925, and have been augmented by 2 per cent stock dividends in two of the past three years.

MARKET ACTION: At its current level the stock is selling at approximately its all-time high of 57⅞. The low for the 1957-8 period was 33¼. Although historically high, the company's earnings and dividend outlook justify present prices.

COMPARATIVE BALANCE SHEET ITEMS

	June 30 1947	June 30 1957	
ASSETS	(000 omitted)		Change
Cash & Marketable Securities	$ 3,087	$16,437	+$13,350
Receivables, Net	3,113	6,805	+ 3,692
Inventories	12,103	18,636	+ 6,533
Prepayments	—	1,033	+ 1,033
TOTAL CURRENT ASSETS	18,303	42,911	+ 24,608
Net Property	5,419	13,536	+ 8,117
Intangibles	—	4,786	+ 4,786
Fgn. Net Assets	004	5,402	+ 5,398
Refunds, Other Invest., Rec.	801	—	— 801
Other Assets	380	—	— 380
TOTAL ASSETS	$24,907	$66,635	+$41,728
LIABILITIES			
Accts. Pay. & Accruals	$ 1,846	$ 4,035	+$ 2,189
Tax Reserve	3,461	6,241	+ 2,780
U.S. Tax Notes	—	dr 5,358	+ 5,358
TOTAL CURRENT LIABILITIES	5,307	4,918	— 389
Reserves	1,338	5,839	+ 4,501
Common Stock	3,586	4,289	+ 703
Surplus	14,676	51,589	+ 36,913
TOTAL LIABILITIES	$24,907	$66,635	+$41,728
WORKING CAPITAL	$12,996	$37,993	+$24,997
CURRENT RATIO	3.4	8.7	+ 5.3

BATH IRON WORKS

BUSINESS: Bath Iron Works is a prime contractor for the U.S. Navy, specializing in the construction of destroyers and other small combat vessels. Some non-shipbuilding contracting is handled occasionally to make use of idle facilities, and the company has a measure of diversification through its Pennsylvania Crushing Division. Principal revenues are derived from government Naval contracts, however. Prospects, therefore, are tied closely to the defense program and the level of Naval expenditures.

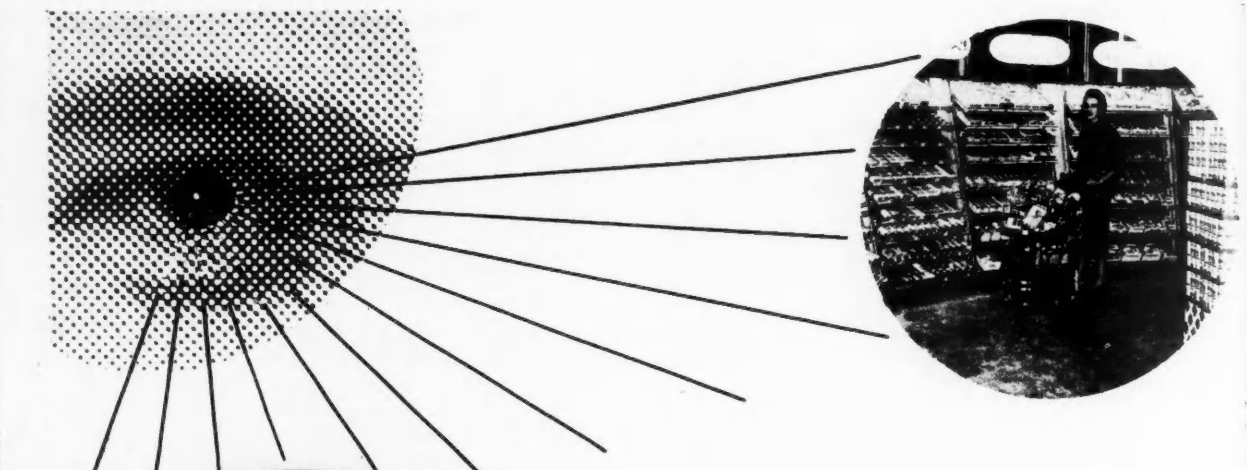
OUTLOOK: After a sharp cutback in operations when World War II ended, revenues began to climb again in 1948. By the end of 1956 they had advanced to $44.8 million, a figure considerably above the Korean War high of $40.2 million. At the same time profits moved steadily upward, rising from $1.38 per share in 1948 and a deficit in 1947, to $6.71 in 1956. For 1957, full year figures are not yet available, but revenues probably continued their first half advance, although probably at a slower rate because of a 28 day strike in November and December. Earnings in the first half, reflecting higher labor costs and slightly narrowing profit margins eased a bit to $2.65 per share from $2.67 in the same period a year earlier, but for the full year, reflecting the strike, preliminary earnings were announced at $5.11 down from $6.71 in 1956. Nevertheless, the outlook for 1958 is for a resumption of the uptrend. Wage costs will be higher but no threat of a strike now exists, and production should be maintained uninterrupted throughout the year. Backlog on December 31, 1957 stood at $99.6 million a bit ahead of the $95.5 million reported a year earlier. Moreover, the Navy is scheduled to award four frigate and five destroyer contracts during 1958, and Bath has already received the award for two destroyers for $34.1 million. The Navy's intention to prevent obsolescence, and the large present backlog should keep the Bath yards humming for several years. The present backlog alone is sufficient to assure over two years of full scale output.

DIVIDENDS: The current 65¢ quarterly dividend rate should continue uninterrupted despite the 1957 downturn in earnings. Prospects are good, and financial condition is adequate to meet operating needs and dividend requirements.

MARKET ACTION: At present price the stock is about half way between the 1957-58 high of 71⅜ and low of 31⅞. The stock is priced to yield 4.9 per cent on the $2.60 annual dividend.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1947	June 30 1957	
ASSETS	(000 omitted)		Change
Cash and Marketable Securities	$ 1,981	$11,266	+$ 9,285
Receivables, Net	3,072	8,866	+ 5,794
Excess of Expendt.	1,780	3,252	+ 1,472
Inventories & Supplies	1,176	1,856	+ 680
Fed. Tax Refund	4,200	—	— 4,200
Other Current Assets	492	240	— 252
TOTAL CURRENT ASSETS	12,701	25,480	+ 12,779
Net Property	1,732	6,015	+ 4,283
Investments	749	—	— 749
Intangibles	433	—	— 433
Other Assets	348	474	+ 126
TOTAL ASSETS	$15,963	$31,969	+$16,006
LIABILITIES			
Notes Payable	$ 500	$ —	—$ 500
Accts. Pay. & Accruals	3,071	10,636	+ 7,565
Federal Income Tax	734	1,490	+ 756
Other Current Liabilities	900	272	— 628
TOTAL CURRENT LIABILITIES	5,205	12,398	+ 7,193
Reserves	1,328	—	— 1,328
Common Stock	419	4,190	+ 3,771
Surplus	9,011	15,381	+ 6,370
TOTAL LIABILITIES	$15,963	$31,969	+$16,006
WORKING CAPITAL	$ 7,496	$13,082	+$ 5,586
CURRENT RATIO	2.4	2.0	— .4



What's Ahead for the Food Processors and Merchandisers

BY WARD GATES

● The food industry is currently a favorite with investors. The reasoning runs "Even if business gets poor, people have got to eat." And so the companies which process and retail food have been receiving much attention of late from those who buy securities and are now looking for issues with defensive characteristics.

The idea that food stocks are recession-resistant has a basis in experience as well as in logic. In 1949, the first postwar recession year, earnings of grocery chains, as reflected by the composite figures for six key companies increased about 4% over the previous year, while the profits of 378 industrial corporations were declining 10%. The drop in net incomes of food manufacturers was only about 4%. In the last prewar recession year, 1938, earnings of most food chains and most food producers advanced over 1937, while industrial profits were declining, although figures are not readily available to compare the magnitude of the changes and differences. Experience in the 1954 recession is not particularly enlightening on this point because of an additional factor, the passing of the excess profits tax at the end of 1953.

The characteristics and position of the food chains and the food manufacturers suggest that earnings' history may well repeat itself in 1958 if this should prove to be a recession year as many now expect. Both types of companies have been, and still are, the beneficiaries of three important trends:

1. **Larger expenditures for food.** The Grocery Manufacturers Association calculates that in 1939 consumers spent about 23% of their disposable income (after paying taxes) for food; that they could buy the same amount and type of groceries today with 16% of their income because of higher incomes; but that they are now spending 25% for foods.
2. **Increasing use of convenience foods.** These include a lot of kitchen and maid services in the preparation and sometimes the pre-cooking of the foods. The cost of these services (and a profit thereon) is included in the selling price, but there is fre-

Food and Food Processors

	1956 Net Sales (Mil.)	1956 Net Profit Margin	1956 Net Earnings Per Share	1956 Div. Per Share	1957 Net Sales (Mil.)	1957 Net Profit Margin	1957 Net Earnings Per Share	Indicated Current Div.	Recent Price	Price Range 1957-58	Ratings
Allied Mills	n.a.	n.a.	$1.05[3]	$2.00	n.a.	n.a.	$1.29[3]	$2.00	31	31⅛-25⅜	B1
Beatrice Foods	$ 259.6[2]	1.6%[2]	1.94[2]	1.62	$ 269.1[2]	1.6%[2]	1.98[2]	1.88	35	36 -29¾	B1
Beech-Nut Life Savers	n.a.	n.a.	1.66[2]	.75	n.a.	n.a.	1.74[2]	1.50	31	35½-27⅛	A1
Best Foods	115.3[1]	5.8[1]	4.53[1]	3.00	114.0[1]	5.4[1]	4.12[1]	3.00	48	50¼-43	B1
Borden Co.	647.2[2]	2.6[2]	3.59[2]	2.80	694.8[2]	2.5[2]	3.93[2]	2.80[6]	61	64¾-51¾	A1
California Packing	126.9[3]	4.6[3]	2.62[3]	2.00[6]	155.5[3]	3.9[3]	2.60[3]	2.20	41	44⅛-36⅝	B2
Campbell Soup	429.8[4]	6.8[4]	2.74[4]	1.50	440.8[4]	6.7[4]	2.80[4]	1.50	38	38¾-32½	A1
Consolidated Foods	155.3[7]	2.2[7]	.73[7]	1.00	163.4[7]	2.1[7]	1.35[7]	1.00	15	16⅝-14	C1
Corn Products	226.5[2]	5.3[2]	1.33[2]	1.50	250.5[2]	5.5[2]	1.51[2]	1.60	35	35¾-28	A1
Foremost Dairies	285.4[2]	2.7[2]	1.06[2]	1.00	310.2[2]	2.7[2]	1.06[2]	1.00	15	18⅝-13⅛	B1
General Foods	714.6[2]	4.5[2]	2.70[2]	1.77	730.2[2]	4.7[2]	2.85[2]	2.00	54	55 -40	A1
General Mills	259.5[8]	1.9[8]	1.97[8]	3.00	265.0[8]	2.4[8]	2.59[8]	3.00	64	69 -56	A1
Gerber Products	78.0[2]	7.3[2]	2.73[2]	1.35	86.1[2]	6.3[2]	2.56[2]	1.80	49	62½-39	B2
Heinz (H. J.)	139.7[9]	4.0[9]	3.20[9]	1.80	147.4[9]	3.7[9]	3.13[9]	2.20	47	54 -43¼	A2
Libby, McNeill & Libby	148.2[3]	1.0[3]	.35[3]	1.00	136.4[3]	.2[3]	.004[3]	.40	8	13⅝- 7⅛	C3
National Biscuit	410.4	4.9	2.90	2.00	424.5	5.1	3.18	2.20	45	45⅛-35	A1
National Dairy Products	1,005.1[2]	3.0[2]	2.24[2]	1.75	1,074.6[2]	3.1[2]	2.44[2]	1.80	41	41½-33	A1
Penick & Ford	n.a.	n.a.	1.72[2]	1.65	n.a.	n.a.	2.13[2]	2.00	32	35¼-24⅝	A1
Pillsbury Mills	162.7[8]	1.3[8]	2.25[8]	2.50	170.2[8]	1.4[8]	2.57[8]	2.50	47	49¾-39⅞	A1
Quaker Oats	277.2[1]	4.1[1]	3.13[1]	1.65	302.6[1]	4.0[1]	3.30[1]	1.80	37	40 -33⅛	A1
Standard Brands	473.2	2.5	3.48	2.25	513.8	2.6	4.01	2.25	44	46¼-37⅜	A1
Stokely-Van Camp	75.2[8]	2.9[8]	1.29[8]	1.00[6]	70.4[8]	1.1[8]	.31[8]	.45	12	19⅞-10⅛	B3
Sunshine Biscuits	168.9	4.2	6.15	4.00	181.5	4.2	6.63	4.00	75	77½-65½	A1
United Biscuit	n.a.	n.a.	2.35[2]	1.40	n.a.	n.a.	2.79[2]	1.60	33	33⅞-25½	B1
United Fruit	n.a.	n.a.	2.87[2]	3.00	n.a.	n.a.	2.90[2]	3.00	41	47⅝-33⅝	B2
Wesson Oil & Snowdrift	165.3[5]	2.4[5]	2.77[5]	1.40	172.4[5]	1.5[5]	1.76[5]	1.40	25	34½-22⅛	B3

n.a.—Not available.
1—Year ended June 30.
2—9 months.
3—6 months.
4—Year ended July 30.
5—Year ended August 31.
6—Plus stock.
7—24 weeks ended Dec. 15.
8—6 months ended November 30.
9—6 months ended October 31.

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

Allied Mills: Earnings are improving slowly for this leading producer and retailer of feeds for livestock and poultry, after touching in fiscal 1957 the lowest level in four years.

Beatrice Foods: Fourth largest producer and distributor of fresh dairy products, has made steady earnings progress in the last five years through acquisitions and through shifting emphasis to fluid milk and cream, ice cream, and non-dairy specialties.

Beech-Nut Life Savers: Merger in 1956 of the leading producer of mint and fruit-flavored candy drops with the second largest baby food manufacturer and the third largest chewing gum maker is beginning to produce results. Per share earnings last year were probably the largest since 1950.

Best Foods: Despite heavy expenditures for advertising and promotion, sales and earnings dropped slightly in fiscal 1957 and the decline has continued to date in fiscal 1958.

The Borden Company: Second largest dairy company, has paid dividends continuously for 58 years, and is increasing sales and earnings gradually through research and diversification.

California Packing: World's largest fruit and vegetable canner, completely integrated from growing vegetables to manufacturing cans and printing labels. Acquisition of Canadian Canners late in 1956 aided in pushing 1957 earnings to a new high.

Campbell Soup: Stock has proved rather a disappointment to investors since it was offered to the public at the end of 1954, although earnings have increased steadily. Dorrance estate still owns more than 80% of stock.

Consolidated Foods: Largest wholesale grocer in country, as well as an important food manufacturer. Also operates retail supermarkets. Has expanded rapidly by acquisitions since end of World War II. Earnings record is checkered, with no net growth per share since 1950. Chairman owns about 14% of stock.

Corn Products: World's largest producer of syrups, starches, and oils from corn, has enjoyed and is enjoying rising earnings as a result of low corn prices, acquisitions, growing foreign business, and new products.

Foremost Dairies: Future of this company, third largest in fresh dairy products field, clouded by suit filed by Federal Trade Commission charging violations of the Clayton Act and Federal Trade Commission Act.

General Foods: The largest producer of packaged foods, has benefited enormously in last ten years from trend toward convenience foods. Weakness in price of coffee, which provides about 40% of sales, adversely affecting current earnings.

General Mills: Diversification program of this, the nation's largest flour miller, has taken it into formula feeds, cereals, prepared and packaged foods, and such unlikely products as sponges, chemicals, and rocket-launching balloons in an effort, not notably successful so far, to reduce the effect on earnings of commodity price fluctuations.

Gerber Products: Largest producer of baby foods, with 45% of business. Gains in sales and earnings in every one of last ten years due to enterprising marketing as well as growth of baby market. Officers and directors combined own almost 50% of stock.

Heinz (H. J.): Present management represents third generation of Heinz family which still controls majority of stock. Has superior earnings record since stock was sold to public at close of World War II.

Libby, McNeill & Libby: Earnings show great volatility, reaching the highest level in 37 years in fiscal 1956, then declining more than 50% in fiscal 1957, with further decline in last six months.

National Biscuit: World's largest and most integrated manufacturer of crackers, cookies, and biscuits; has record of stable earnings. Just completing ten-year modernization of facilities, including automatic devices to unload raw materials, mix ingredients, bake, and package.

National Dairy Prod.: Country's largest dairy foods company. Has good postwar record of sales and earnings gains, partly through acquisitions. Plans to spend almost $200 million in next five years to counter rising costs with improved and expanded facilities.

Penick & Ford: Second largest corn grinder, probably registered its sixth consecutive earnings gain last year, and paid largest dividends in company's history. Diversification into grocery products credited for much of the gains of recent years.

Pillsbury Mills: Largest manufacturer of prepared food mixes, and second largest flour miller, is now devoting more attention to expense control than to expansion of volume. Has laid out an extensive modernization program.

Quaker Oats: Company's line of foods for cats, dogs, other animals, and poultry is given credit for much of the gain achieved in the last five years. Its well known cereals and other human foods are subject to keen competition, particularly from ready-to-eat cereals.

Standard Brands: Second largest producer of packaged foods; sales set new record in 1957 and earnings were largest in 11 years, suggesting possibility of a dividend increase. Part of last year's gain resulted from inclusion, for a full year, of Clinton Foods, acquired in April 1956.

Stokeley-Van Camp: World's largest canner of vegetables and pork and beans. Earnings adversely affected currently by difficult conditions prevailing in frozen foods. Directors, principally chairman, own 20% of stock.

Sunshine Biscuit: Second largest cracker, cookie, and biscuit baker, with about 15% of market. Is now diversifying into potato chips and other snack foods. Earnings have been characterized by stability; finances by conservatism. Chance of a modest dividend increase. Rate not changed since 1950.

United Biscuit: Third largest cracker, cookie, and biscuit baker; has had more success increasing sales in last ten years than in lifting earnings. Modernization less advanced than for company's two larger competitors.

United Fruit: World's largest banana grower, is going to have to share its market with a new competitor which company is to create under recently-signed consent decree which settled anti-trust suit filed in 1954. Some speculative possibilities in permission obtained from Republic of Panama to explore for oil on more than a million acres adjacent to Union Oil Company holdings in that country.

Wesson Oil & Snowdrift: Largest cottonseed oil producer, has an indifferent earnings record in postwar years, attributed to the difficulties of the trade, including, in recent years, acreage limits which reduce cotton production. Hunt Foods owns about 28% of stock.

quently still a net saving to the consumer because of the elimination of freight on waste parts removed at the factory, and because of the reduction of spoilage losses. For example, the Grocery Manufacturers Association calculates that devil's food cake, made from a prepared mix plus two eggs, costs 45 cents; while the same cake made from home combined ingredients costs 55 cents; a pound of shelled peas frozen or canned costs 33 cents, compared to 72 cents a pound for fresh peas; and baby food costs 10 cents, but prepared at home it would cost 13 cents.

3. **Wider dissemination of information on nutrition,** the value of balanced diets, and the resulting tendency to use greater variety of foods, many of which sell at higher prices and carry wider margins than the familiar staples.

Food Chains Out-Perform Processors

The profits record shows that food retailers have been more successful at taking advantage of these trends than food processors. Composite profits of the six food chains in 1956 were 40% above the average profits of the same companies in the years 1947 to 1949, but net incomes of food processors rose only 27% during the same period, if measured by figures for 89 grocery manufacturers compiled by the Grocery Manufacturers Association, or only 4% if we use the composite figures on nine important food producers compiled by one statistical organization.

This disparity in results seems to have continued in 1957. An informal calculation indicates that profits of representative grocery chains in the first nine months of last year were approximately 20% above the like period of 1956. A tabulation made by the First National City Bank of New York shows a composite gain in net income of only 7% for 44 companies making food and beverages.

The explanation of the better showing of the food chains lies, in our opinion, in several economic advantages enjoyed by the retailers. Chief among these is the rapid expansion of facilities since the end of World War II by most grocery chains. Not only have they acquired numerous smaller chains or individual stores; more important they have closed a large number of relatively small neighborhood units and replaced them with a smaller number of much larger, better located supermarkets with adequate parking space, with all the volume gains which come from better locations and the economies that result from larger scale operations. Food stores have also been carrying in recent years an increasing number of fast-selling, wide-margined non-foods, which have added to both volume and profits.

Many food manufacturers, on the other hand, being already of commanding size in their fields, have had to be cautious in their expansion plans, particularly where acquisitions were involved, in order to avoid the charge of monopoly or restraint of trade. Even so, charges have been filed against Beatrice Foods, The Borden Company, Foremost Dairies, National Dairy Products, and United Fruit.

Food retailers seem also to enjoy an advantage in bargaining with food manufacturers. For instance, the chains are able to obtain advertising allowances from food producers to be used in promoting the manufacturer's products, on bases so liberal that there is generally something left over after the actual advertising and promotion is done as agreed. An extreme example is the chain which is reported to have obtained enough in advertising allowances not only to carry out the advertising programs prescribed by the manufacturers, but also to cover the chain's own complete advertising and promotion budget.

Similarly, large grocery chains which have their own private brands are often able to pressure a manufacturer into supplying to them for distribution as their private brand the same product as he sells under his own nationally-advertised brand. The retailer is often provided, also, with merchandising help which reaches the point where the producer is spending more money to push the private brand than he is on his own brand.

Finally, grocery chains have enjoyed a marked and growing advantage over most independent food retailing enterprises, while the figures suggest that in food processing the advantage is with the smaller concern. We refer to the composite gain of 4% in earnings of nine giant food producers between the 1947-49 base period and 1956, compared with the composite increase of 27% in profits of 89 grocery manufacturers, which must have included a number of smaller concerns, in the same period.

Profit Growth Is Slow for Processors

Food manufacturers have modernized and relocated plants, in the effort to cut down costs; and have diversified, in the search for new sources of profits; but only a few have been able to achieve any substantial earnings growth in the last ten years. One of the annoying anomalies of diversification in the food business is that so often the fastest growing trades prove to be the least profitable. For instance, few sections of the food business have grown more rapidly than frozen orange juice concentrate. Americans now use approximately twice as many oranges as before the War, and most of the gain is in the form of concentrates. Yet the food processors engaged in producing frozen concentrates are making little if any profit. The potential growth was so obvious from the start, and the entry into the field so easy, that too many producers rushed in and created intense competition which prevented any of them from realizing the expected profits.

Roughly the same sequence of events was followed in prepared cake mixes, which also had a phenomental growth, attracted many producers in the field, and developed such fierce competition and price cutting that many are now withdrawing.

That diversification is not a sure method of bolstering earning power is evident from the fact that one of the most conspicuously and continuously successful food processor is Gerber Products, which has resisted all temptation to diversify into other lines and clings to its slogan "Babies are our business—our ONLY business;" while Libby, McNeill & Libby, which claims to be the world's most diversified packer of canned and frozen foods, has a spotty record and finds its earnings very much depressed. However, for some companies diversification proves effective. Whether it does so apparently depends on management and conditions in the trade.

Price Action of Food Stocks

Although the earnings of food manufacturers proved recession-resistant in the first postwar reces-

Vital Statistics on Retailers and Processors

Food Retailers

	1956 Net Sales (Mil.)	1956 Net Profit Margin	1956 Net Earnings Per Share	1956 Div. Per Share	1957 Net Sales (Mil.)	1957 Net Profit Margin	1957 Net Earnings Per Share	Indicated Current Div.	Recent Price	Price Range 1957-58	Ratings
ACF-Wrigley Stores Inc.	$ 75.5[1]	1.5%	$ .34[1]	......	$ 80.6[1]	1.6%	$ .36[1]	$ .40	15	16¼- 12⅛	C1
American Stores	378.5[2]	1.0[2]	2.55[2]	$2.00[6]	409.8[2]	1.2[2]	2.94[2]	2.00	70	70¼- 45¼	B1
First National Stores	n.a.[2]	....[2]	2.46[2]	2.40	n.a.[2]	....[2]	2.58[2]	2.50	57	59¼- 47	A1
Food Fair Stores	279.3[3]	1.6[3]	1.42[3]	1.00[6]	310.1[3]	1.6[3]	1.48[3]	1.00	44	47¾- 34¼	B1
Grand Union Co.	276.4[4]	1.2[4]	1.69[4]	.60[6]	314.2[4]	1.3[4]	1.86[4]	.72	36	37⅜- 25½	B1
Great Atlantic & Pac.	4,481.8	0.9	19.21	7.00	n.a.	n.a.	n.a.	7.00	288	290 -149½	A1
Jewell Tea Co.	385.5	1.6	4.22	2.00	414.4	1.6	4.61	2.00[6]	59	62½- 47¾	A1
Kroger Co.	1,492.5	1.2	4.41	2.00[6]	1,674.1	1.2	5.10	2.00	65	66½- 47	A1
National Tea Co.	468.3[7]	1.0[7]	2.27[7]	2.40	502.1[7]	1.1[7]	2.57[7]	2.00	46	48¾- 36⅛	B1
Safeway Stores	1,989.3	1.2	2.14	.80	2,117.0	1.4	2.48	1.00	26	27⅛- 23¼	B1
Winn-Dixie Stores	265.9[5]	2.0[5]	.86[5]	.78	303.2[5]	2.0[5]	1.01[5]	.96	28	30 - 18⅞	B1

n.a.—Not available.
[1]—Quarter ended Sept. 30; no figures for prior periods because of merger.
[2]—6 months ended Sept. 30.
[3]—28 weeks ended November 9.
[4]—9 months ended November 30.
[5]—28 weeks ended January 11, 1957 & 1958.
[6]—Plus stock.
[7]—40 weeks ended October 5.

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

ACF-Wrigley Stores: Result of a consolidation at the end of 1955, company which is expanding rapidly has a pro-forma record of rapidly growing earnings of constituent companies. Officers and directors own 28% of stock.

American Stores: Fourth largest grocery chain, located mostly in Penna. and N. J. Has excellent earnings record. Financial needs of expansion program retarding dividend increase.

First National Stores: Only chain in group without capital obligations senior to common stock. Growth of profits gradual because of mature nature of territory served and keen competition prevailing. Dividend well secured; could be raised moderately.

Food Fair Stores: Has record of extraordinary growth in volume in last ten years; increase of earnings since 1955 more modest. Rapid expansion has strained finances. Further borrowing may be required this year. Chairman's family controls 22% of stock.

Grand Union: Aggressive management has big expansion program still ahead after five years of rapidly growing sales and earnings. Moving further into non-foods than any other food chain.

Great Atlantic & Pac.: Largest retail enterprise in world; gives least information to stockholders of any food chain. Reported that some of voting stock, now all held by Hartford family, may be sold to public soon. Dividend rate, in effect for ten years, seems due for an increase.

Jewel Tea Co.: Operates about 2,000 home service routes in 42 states, as well as about 230 stores in the Chicago area. Management encourages a "Spirit of Restless Unsatisfaction" among employees which has lifted sales and earnings in last four years to new highs in 1957.

The Kroger Co.: Third largest food chain, has been concentrating on modernizing with fewer, larger stores. Results in last two years particularly impressive in volume and profits gains, with new records in 1957.

National Tea Co.: Fifth largest food chain, currently one of the fastest growing, largely through acquisitions. Policy requires almost yearly issues of debentures. Controlled by Loblaw Groceterias, with which an ultimate merger seems a reasonable expectation.

Safeway Stores: New management of this second largest food chain, installed in 1955 when the company's margins were the smallest in the industry, almost doubled per share earnings in 1056 on a 3% gain in volume, and achieved another increase of about 16% in profits in 1957 on a sales expansion of only a little over 6%.

Winn-Dixie Stores: Manufacturing and wholesaling as well as retailing foods, this chain has had a larger net growth in sales in the last ten years than any other in the group. Has increased dividends in fourteen consecutive years, and may well make it fifteen in 1958.

sion, the prices of their stocks did not. The index of industrial stock prices declined approximately 30% from its 1946 high to its 1949 low. The bottom of the decline in the indexes for the food group composite and the grocery chains was reached earlier, in 1948, and represented a decline of 30% for the processors and about 37% for the grocery chains, doing worse than the composite index.

In the subsequent long advance, the industrial stock index rose fully 300% before it made its top in 1956. The index of grocery chain stocks reached its peak the week this was written, about 180% above the 1948 level. The index for the food group composite reached its summit (90% above the 1948 low) in 1955.

In the declining markets of the last half of 1957 the food and grocery indexes were superior performers. The food group composite reached its high in July last year, and its low in October, with an intervening drop of 7%. The industrial stock index declined more than 20% from its July high to its December low. The grocery chain index actually advanced about 25% between the year's low in February 1957 and the year's high in December of that year. Since then it has gained another 5%.

Investment Appraisal

For the future, it seems probable that food manufacturers will continue to face many of the problems that have troubled them in the past. No notable change in the position of the industry is discernible. The companies will, in our opinion, continued to be characterized by stability rather than rapid growth; and their stocks—with certain progressive exceptions such as **Corn Products, General Foods, Gerber Products, H. J. Heinz, Penick & Ford,** and **National Dairy Products**—will continue to be unexciting, though satisfactory, investments for income. Yields are fair to good, and few of the dividends in the industry seem in danger.

Yields on the grocery chain stocks are less attractive, not only because more is expected of these issues in the way of capital appreciation, but also because the companies must retain a substantial portion of earnings to finance the vigorous further expansion programs most of them have announced. It may be, however, that the period of large additions to facilities of grocery chains is nearing its end. Some observers think so. When the food retailers cease to spend such large sums for modernization and expansion, it is a reasonable (*Please turn to page* 720)

FOR PROFIT AND INCOME

March Markets

On a long-term average basis, March has been a better month for the stock market than February. The latter brought some net gain for the industrial average in 28 out of 61 years since 1897, net declines in 33 years; for the rail average, declines in 35 years, gains in 26. The March record for the industrial average is: ups in 36 years, downs in 25; for rails, ups in 35 years, downs in 26 years. On balance, over the 61 years, April and May have been very close to 50-50 months. Of course, the record has virtually no prophetic value, since circumstances, sentiment and technical factors govern the movement at any given time. In the present instance the performance since the start of the year has been better than had been expected. With basis for a new bull market not evident, it is presumed to be an interim recovery. If that is correct, a sell-off will be due within the remaining winter weeks or in the early Spring.

Aircraft

Most aircraft stocks have moved up more than the industrial list in recent months. This is not surprising because (1) they had previously fallen much more than the market; and (2) sentiment on them has been given a big lift by scheduled or expected increases in some types of defense spending, especially for missiles, certain advanced types of planes and for submarines. Earnings prospects for a number of these companies are not clear for any great distance ahead. Market behavior of General Dynamics has been the best in the group, reflecting the company's broad diversification and strong position in each of its fields. Through the Convair division it is among the leaders in advanced military planes and missiles, and is important in commercial transports. Through others, it is the largest builder of submarines; a big maker of telephonic and other electronic equipment; and has a promising position in the growing market for industrial gases. Thus, there are good reasons why the stock sells at a higher multiple of earnings than do other prominent aircrafts. Profits appear subject to impressive growth on a three to five-year perspective. Now around 62, the

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Smith-Corona	6 mos. Dec. 31	$1.60	$1.28
Texas tilities Co.	Year Dec. 31	2.56	2.35
Norwich Pharmacal	Year Dec. 31	2.07	1.80
Philip Morris, Inc.	Year Dec. 31	4.50	4.08
Sunray Mid-Continent Oil	Year Dec. 31	3.04	2.40
Westinghouse Electric Corp.	Quar. Dec. 31	1.36	.26
Pfizer (Chas.) & Co.	Year Dec. 31	4.22	3.36
Texas Gulf Producing	Year Dec. 31	1.59	1.40
Central Illinois Light	Year Dec. 31	4.10	3.86
Island Creek Coal	Year Dec. 31	4.25	4.03

issue is a sound speculative buy on dips.

Private Planes

The business of making private planes has come a long way in recent years. Sales are pricinpally to corporations interested in owning fast means of transport for executives and other key personnel; but there is also a sizable market among individuals. Piper Aircraft is the leading specialist in this field, with more than 90% of its sales therein. It is not vulnerable to shifts in military procurement; but it does have other hazards. First, the business is subject to economic recession and has been levelling off recently. Second, Piper has competition from Cessna Aircraft which is, indeed, the largest maker of so-called civilian light planes, although they account for less than 60% of its sales; and from Beech Aircraft, whose sales are less than 50% in the private small-plane market. These two companies are affected both by the business cycle and by the vagaries of military buying—a rather awesome twosome for speculators. Piper is speculative enough at 15 in a 1957-1958 range of 21½-11¾, on earnings of $3.10 a share for the year ended last September 30, against the prior year's $2.88, yielding about 6.2% on a $1 dividend. However, buying on substantial price dips could prove profitable over a period of time. No great change in current-year earnings is likely, if the company's new four-seat Comanche model bolsters sales to the extent hoped for.

Electronics

There has been much big talk and loose talk about "electronics" as a multi-billion-dollar business with vast growth potentials. It would be accurate to say that it is a large, highly diverse field, some segments of which appear subject to promising volume growth which probably will not bring proportionate profit growth. For purposes of ballooning estimated total dollar volume, even replacement parts for and service work on TV sets, radios and phonographs are included. So also, of course, is radio-television broadcasting, and manufacture of radio and television sets. Depending on how you define it, manufacture of equipment for industrial or commercial use might be around 10% of the total; and this is subject to important growth. Military demand accounts for not far from a third of the aggregate, and for a much bigger portion of manufactures classed as electronics. This business can be affected, as has been demonstrated, by shifts in defense spending, shifts in emphasis as between different types of weapons, and shifts in contract placement as between different companies. Numerous small companies manufacture electronic equipment or parts. A number of large companies are "part electronic", of which a few examples are General Electric, Westinghouse, Radio Corp., International Business Machines and Minneapolis-Honeywell. The first two, known for decades simply as "electrical equipments", provide broad representation in electronics for investors interested in having it.

Rails

Attention of Congress has been called to the "plight" of the railroads; but prospects of beneficial legislation are virtually nil. What the industry needs right now is a traffic-boosting business revival, which will come in time; and a flattening out of its inflation trend in operating costs, which is problematical. Of course, the trains will continue to run; and it would take a serious depression to threaten the solvency of the stronger roads mostly in the South and West. The early outlook for rail stocks is not bright, but everything has its price. In short, prices of many rails make large allowance for adversity. Selected issues had better 1957 earnings than did many industrial stocks, and could work out prftitably on a cyclical basis if bought on sell-offs within nearby weeks or months. To cite a few examples: Denver & Rio Grande Western earned $6.19 a share in 1957, against 1956's $5.64. Around 36, the stock yields over 6.9% on a $2.50 dividend. Southern Pacific netted $6.02 a share for 1957, against 1956's $6.01. On a $3 dividend, the stock yields about 7.7% around 39. Union Pacific, a strong road with large oil-gas revenue, earned $3.34 a share last year, down nominally from 1956's $3.36. At 27, the stock yields nearly 6% on a $1.60 dividend total.

Support

Stocks making a better showing than the market at this time include: American Stores, Bayuk Cigar, Canada Dry, Brown Shoe, Central & South West, Lorillard, Cincinnati Gas & Electric, Colgate Palmolive, Corn Products, Food Fair, First National Stores, Household Finance, Parke Davis, Ohio Edison, National Biscuit, National Tea, Commercial Credit, Penney, Reynolds Tobacco, Safeway Stores, Southern Company, Standard Brands, U. S. Shoe, and Washington Water Power. It is not happenstance that there is not a single heavy-industry or durable-goods stock among these examples.

Unimpressive

Recent and current technical evidence, backed by adverse fundamentals in most cases, appears unpromising at least on a near-term basis in the case of the following stocks: Alcoa, American Smelting, American Viscose, Anaconda, Atlantic Refining, Beckman Instruments, Black & Decker, Borg-Warner, Bulova Watch, Burroughs Corp. Chrysler, Cities Service, Clevite, Crucible Steel, Electric Auto-Lite, Ex-Cell-O, Ford Motor, Foster Wheeler, Gillette, Gulf Oil, Halliburton, Harbison-Walker, Inter-

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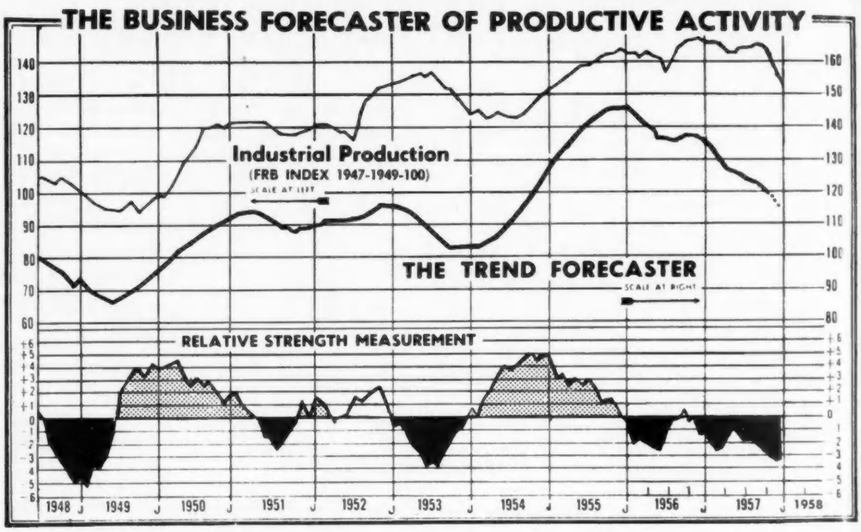
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Kaiser Aluminum & Chemical	Quar. Dec. 31	$ .22	$ .54
Colorado Fuel & Iron	Quar. Dec. 31	.56	1.04
Armco Steel	Year Dec. 31	4.59	6.03
Oliver Corp.	Year Oct. 31	.13	.76
Ideal Cement Co.	Quar. Dec. 31	.63	1.02
Carpenter Steel Co.	Quar. Dec. 31	.94	2.04
Cooper-Bessemer Corp.	Quar. Dec. 31	.75	1.36
Harshaw Chemical Co.	Quar. Dec. 31	.51	.69
Aeroquip Corp.	Quar. Dec. 31	1.19	1.43
Beaunit Mills	Quar. Dec. 31	.31	.83

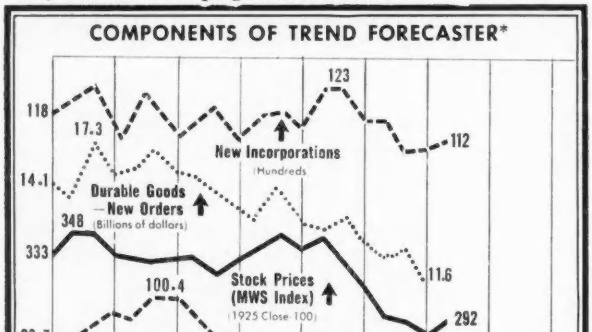
the Business

Business Trend Forecaster *

INTERESTING TO NOTE – The rise in industrial production line between 1956-57 was offset by economic decline in that period, which accurately forecast heavy inventory accumulations.



*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy as presented in our *Relative Strength Measurement.*

The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

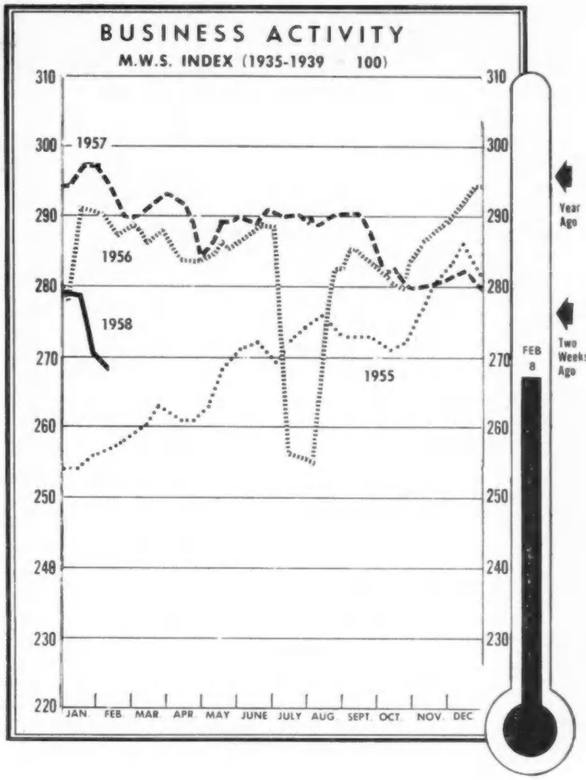
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Six out of the eight components of the **Trend Forecaster** are further depressed. Although two indicators managed minor rallies in January, their improvement thus far is insufficient to affect their basic downward trend. According to latest data, components which continued to shrink include new orders for durable goods, stock prices, new incorporations, raw industrial materials, average hours worked and the inverted series for liabilities of business failures. The two indicators that showed slowly rising tendencies are housing starts and non-residential construction contract awards.

Therefore, on balance, the **Trend Forecaster** is declining steadily and the **Relative Strength Measurement** stands at minus 3¼. At this level it is forecasting further business weakness at least through the first half of 1958.

Analyst



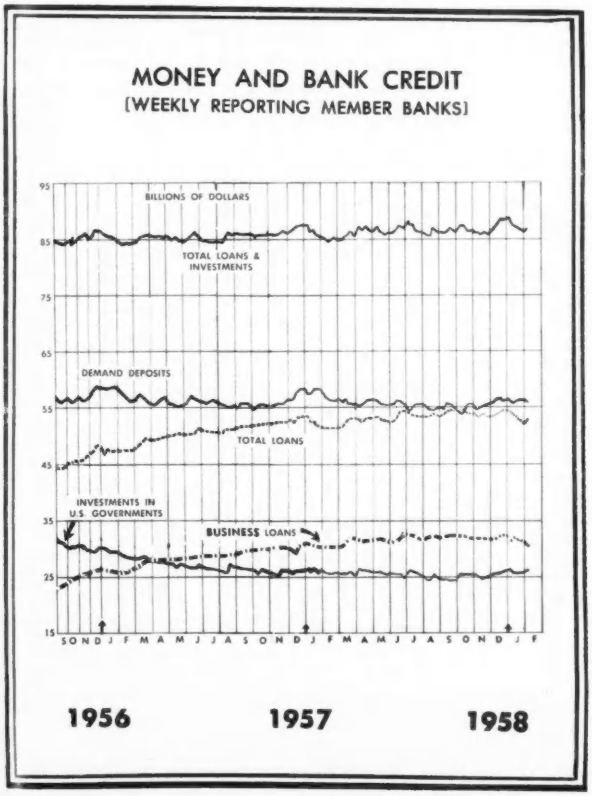
CONCLUSIONS IN BRIEF

PRODUCTION—Decline in productive activity spreading out to encompass more industries—including rubber—synthetic fibers—lower levels ahead for most industrial groups and raw material producers. Look for deepening recession to run beyond spring.

TRADE—Department store sales receding—higher prices prop to food sales figures—wholesale and retail price concessions used to bolster sales in consumer durables. Downtrend in demand persists as unemployment grows.

MONEY & CREDIT—Demand for business loans continues to decline—no immediate upturn in sight—moderate reduction in reserve requirements ineffective. As contraction proceeds, further downtrend in interest rates can develop.

COMMODITIES—Freeze and cold weather to throw farm prices out of joint pending new crops. Potatoes, vegetables severely damaged—fruits (oranges—grapefruit)—to be scarce items. Outlook cloudy for canners—frozen foods. Cattle prices to soar due to costly grain feeding substitutes for pasturage—cattle loss on range and in transit—due to severe weather.



The impact of the recession in business is now beginning to be felt in earnest throughout the country as sharp decreases in plant and equipment outlays augment previous areas of weakness. Industrial production has continued its downward plunge, falling three points in January, to a level almost 10% under its December, 1956 peak. Industries hitherto resistant to decline, such as paperboard and synthetic fibers, are beginning to feel the pinch, while sectors previously hard hit fail to show any come-back. Although manufacturers have succeeded in lightening inventories a bit, their new orders and shipments have fallen even faster, with the result that stocks are relatively more burdensome than ever. **But the development with perhaps the widest repercussions has been the sharp rise in unemployment which unmistakeably brought the situation home to the general public.** Close to 4½ million people were looking for work in January, a rise of 1,120,000 from December, the biggest monthly increase since the Government began to gather this data in 1941. A further rise in unemployment took place in February and it is estimated that some 5 million people were out of work last month, a level that exceeds the number of jobless at the worst points of the contractions of either 1948-1949 or 1953-1954.

In this atmosphere, the Government is faced with a dilemma that admits of no easy solution. In the light of present conditions, the Administration, which has always advocated sound money, is finding it difficult to take the decisive steps necessary to at least temporarily alleviate the

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Essential Statistics

THE MONTHLY TREND

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Jan.	133	136	146
Durable Goods Mfr.	1947-'9-100	Jan.	143	147	164
Nondurable Goods Mfr.	1947-'9-100	Jan.	126	127	131
Mining	1947-'9-100	Jan.	122	122	131
RETAIL SALES*	$ Billions	Jan.	17.0	16.9	16.3
Durable Goods	$ Billions	Jan.	5.6	5.6	5.7
Nondurable Goods	$ Billions	Jan.	11.4	11.3	10.6
Dep't Store Sales	1947-'9-100	Jan.	132	138	133
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	25.2	26.1	29.0
Durable Goods	$ Billions	Dec.	11.6	12.4	14.5
Nondurable Goods	$ Billions	Dec.	13.6	13.7	14.5
Shipments*	$ Billions	Dec.	26.7	27.2	28.8
Durable Goods	$ Billions	Dec.	13.1	13.5	14.5
Nondurable Goods	$ Billions	Dec.	13.6	13.7	14.3
BUSINESS INVENTORIES, END MO.*	$ Billions	Dec.	90.8	91.0	89.1
Manufacturers'	$ Billions	Dec.	53.6	53.9	52.3
Wholesalers'	$ Billions	Dec.	12.7	12.8	13.0
Retailers'	$ Billions	Dec.	24.5	24.3	23.9
Dept. Store Stocks	1947-'9-100	Dec.	150	154	151
CONSTRUCTION TOTAL		Jan.	3.3	3.7	3.2
Private	$ Billions	Jan.	2.4	2.7	2.3
Residential	$ Billions	Jan.	1.1	1.3	1.1
All Other	$ Billions	Jan.	1.3	1.4	1.2
Housing Starts*—a	$ Billions	Jan.	1,030	970	1,020
Contract Awards, Residential—b	Thousands	Dec.	757	930	699
All Other—b	$ Millions	Dec.	1,224	1,441	1,358
EMPLOYMENT					
Total Civilian	Millions	Jan.	62.2	64.4	62.6
Non-Farm	Millions	Jan.	51.0	53.0	51.7
Government	Millions	Jan.	7.5	7.8	7.3
Trade	Millions	Jan.	11.5	12.4	11.3
Factory	Millions	Jan.	12.0	12.5	13.2
Hours Worked	Hours	Jan.	38.7	39.4	40.2
Hourly Earnings	Dollars	Jan.	2.10	2.10	2.05
Weekly Earnings	Dollars	Jan.	81.27	82.74	82.41
PERSONAL INCOME*	$ Billions	Dec.	343	345	335
Wages & Salaries	$ Billions	Dec.	239	240	235
Proprietors' Incomes	$ Billions	Dec.	50	50	50
Interest & Dividends	$ Billions	Dec.	30	32	29
Transfer Payments	$ Billions	Dec.	23	23	19
Farm Income	$ Billions	Dec.	16	15	15
CONSUMER PRICES	1947-'9-100	Dec.	121.6	121.6	118.0
Food	1947-'9-100	Dec.	116.1	116.0	112.9
Clothing	1947-'9-100	Dec.	107.6	107.9	107.0
Housing	1947-'9-100	Dec.	127.0	126.8	123.5
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Dec.	104.9	105.9	106.7
Bank Debits*—g	$ Billions	Dec.	80.8	78.6	76.6
Business Loans Outstanding—c	$ Billions	Dec.	32.3	31.5	31.1
Instalment Credit Extended*	$ Billions	Dec.	3.6	3.6	3.5
Instalment Credit Repaid*	$ Billions	Dec.	3.5	3.4	3.2
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Dec.	6.0	4.8	5.4
Budget Expenditures	$ Billions	Dec.	5.8	5.8	5.7
Defense Expenditures	$ Billions	Dec.	3.6	3.4	3.5
Surplus (Def) cum from 7/1	$ Billions	Dec.	(6.7)	(6.9)	(5.7)

PRESENT POSITION AND OUTLOOK

situation. The solutions suggested—sharply higher Federal spending and/or tax cuts—would involve massive deficits, a swollen money supply and the reawakening of inflationary pressures.

In this quandary, the President has understandably resorted to vigorous re-assurances rather than comprehensive action, to counteract the pessimism engendered by recent statistics. Unfortunately, the economy seems to be singularly immune to verbal blandishments, and it is difficult to escape the conclusion that the President—in an election year—will eventually have to embark on a determined effort to halt the recession.

If the Government does finally turn to massive deficits to counteract the downturn, and puts people to work, it may temporarily retard the slide. **What is more serious however, is the almost certain re-kindling of inflationary fires, an effect that can in time become a more serious problem than the business cycle itself.**

* * *

INVENTORY RECESSION?—It is short-sighted to call this an inventory recession, as some observers optimistically proclaim. This, it appears to us, completely overlooks the more basic forces that impelled businessmen to cut inventories in the first place. These basic factors included the obvious existence of over-capacity, the consequent drop in new orders for plant and equipment, the sharp dip in exports and the heavy previous consumer purchases of durables, to the point of repletion.

Inventory cutting will undoubtedly continue in coming months, and to this will be added sharp reductions in capital outlays. The extent of inventory cutbacks will ultimately be determined by their relation to sales. In this connection, recent sharp cuts in employment do not augur well for the sale of consumer and industrial products.

* * *

HOPE IN RETAIL SALES?—On the surface, January sales figures make pleasant reading. At a seasonally adjusted $16.97 billion, they were 1% ahead of the previous month and close to the peak reached in the Summer of 1957. Closer analysis, however, reveals a somewhat less favorable situation. The big gain in January purchases was in nondurable goods, which afford decidedly less of a stimulus to capital spending than is aroused by

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 IV Quarter	1957 III Quarter	1957 II Quarter	1956 IV Quarter
GROSS NATIONAL PRODUCT	433.0(e)	439.0	434.3	426.0
Personal Consumption	282.5(e)	283.6	278.9	272.3
Private Domestic Invest.	61.0(e)	65.5	65.0	68.5
Net Foreign Investment	2.5(e)	3.2	3.5	2.4
Government Purchases	87.0(e)	86.7	86.9	82.8
Federal	50.0(e)	50.6	51.1	49.0
State & Local	37.0(e)	36.1	35.8	33.9
PERSONAL INCOME	344.5(e)	346.5	342.4	334.5
Tax & Nontax Payments	43.5(e)	43.6	42.9	40.5
Disposable Income	301.0(e)	302.9	299.5	294.0
Consumption Expenditures	282.5(e)	283.6	278.9	272.3
Personal Saving—d	18.5(e)	19.3	26.6	21.7
CORPORATE PRE-TAX PROFITS*	40.3(e)	41.8	42.0	45.6
Corporate Taxes	20.5(e)	21.3	27.4	23.3
Corporate Net Profit	19.8(e)	20.5	20.5	22.3
Dividend Payments	11.7(e)	12.6	12.5	11.5
Retained Earnings	8.1(e)	7.9	8.0	10.8
PLANT & EQUIPMENT OUTLAYS	35.5(e)	37.8	37.0	36.5

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Feb. 8	268.2	271.5	295.7
MWS Index—per capita*	1935-'9-100	Feb. 8	201.7	204.2	226.8
Steel Production	% of Capacity	Feb. 16	53.5	54.0	97.7
Auto and Truck Production	Thousands	Feb. 15	132	135	180
Paperboard Production	Thousand Tons	Feb. 15	259	252	280
Paperboard New Orders	Thousand Tons	Feb. 15	239	310	219
Electric Power Output*	1947-'49-100	Feb. 8	231.4	227.5	226.1
Freight Carloadings	Thousand Cars	Feb. 8	532	550	665
Engineering Constr. Awards	$ Millions	Feb. 13	209	323	312
Department Store Sales	1947-'9-100	Feb. 8	93	92	101
Demand Deposits—c	$ Billions	Feb. 5	55.9	56.1	56.9
Business Failures	Number	Feb. 6	342	326	287

PRESENT POSITION AND OUTLOOK

burgeoning demand for hard goods. In the latter field, sales to consumers were still well below peak levels and the crucial auto industry was still heading downward. More recent figures indicate that the January rise in sales of nondurables may have been a flash in the pan, for department stores report that their dollar volume in the first week of February were a sizeable 8% under a year ago. If this poor showing is a reliable indication of the month as a whole, even the prop of higher demand for soft goods will be removed from the business picture.

* * *

STABILITY IN CONSTRUCTION OUTLAYS—Spending for new construction was still holding up well in January, at a seasonally adjusted $48.5 billion annual rate, only $100 million under the peak reached in December.

For this relatively good showing we must thank state, local and Federal government which increased construction spending by some $600 million in January, almost counterbalancing the drop in private building activity. Welcome increases were registered in spending for highways, schools and sewer projects, among others. **Further gains in public construction are to be expected in coming months and this may keep total construction on a reasonably even keel for some time.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	'57-'58 Range High	'57-'58 Range Low	1958 Feb. 7	1958 Feb. 14
300 Combined Average	346.6	270.4	299.8	298.1
4 Agricultural Implements	282.4	181.9	207.4	201.9
3 Air Cond. ('53 Cl.—100)	122.8	82.7	96.4	92.1
9 Aircraft ('27 Cl.—100)	1388.8	882.6	1021.2	1011.7
7 Airlines ('27 Cl.—100)	1022.5	581.5	709.8	727.5
4 Aluminum ('53 Cl.—100)	464.5	253.4	273.7	266.1
6 Amusements	172.6	119.0	141.6	141.6
8 Automobile Accessories	384.4	284.7	310.3	307.5
6 Automobiles	54.3	38.1	41.9	41.9
4 Baking ('26 Cl.—100)	30.7	26.3	30.7	30.7
4 Business Machines	1285.3	863.7	950.1	932.8
6 Chemicals	652.3	496.7	535.2	524.9
5 Coal Mining	25.1	16.8	20.1	19.3
4 Communications	106.0	83.1	90.7	89.9
9 Construction	126.8	100.7	115.9	118.0
7 Containers	799.9	656.5	748.5	748.5
7 Copper Mining	307.6	179.7	202.9	199.3
2 Dairy Products	121.4	103.8	121.4	120.2
6 Department Stores	89.2	75.1	84.9	84.9
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	233.6	245.3
6 Elec. Eqp. ('53 Cl.—100)	244.4	183.3	207.2	203.4
2 Finance Companies	635.7	525.0	613.4	635.7H
6 Food Brands	280.2	239.8	273.0	270.5
3 Food Stores	198.6	153.8	198.6	196.8

(Nov. 14, 1936 Cl.—100)	'57-'58 Range High	'57-'58 Range Low	1958 Feb. 7	1958 Feb. 14
100 High Priced Stocks	236.9	185.8	198.2	196.9
100 Low Priced Stocks	415.9	311.7	356.4	355.2
5 Gold Mining	726.2	515.0	607.7	638.6
4 Investment Trusts	184.5	137.5	155.4	151.3
3 Liquor ('27 Cl.—100)	1094.5	855.7	949.2	949.2
8 Machinery	523.4	338.6	367.9	361.0
3 Mail Order	174.6	135.2	158.2	159.5
4 Meat Packing	142.6	103.5	123.6	124.8
5 Metal Fabr. ('53 Cl.—100)	198.3	131.6	158.4	154.4
9 Metals, Miscellaneous	420.9	263.1	305.2	297.3
4 Paper	1060.1	789.9	883.9	883.9
22 Petroleum	914.4	642.6	661.9	649.0
21 Public Utilities	271.7	236.5	271.7	271.7
7 Railroad Equipment	91.4	54.8	64.1	63.0
20 Railroads	72.7	41.7	46.7	46.3
3 Soft Drinks	509.8	432.7	502.4	502.4
12 Steel & Iron	393.0	235.8	266.1	263.7
4 Sugar	116.9	96.9	106.7	105.7
2 Sulphur	926.7	521.2	591.8	581.0
10 Television ('27 Cl.—100)	36.0	27.2	31.3	31.3
5 Textiles	149.9	96.7	114.8	113.8
3 Tires & Rubber	197.6	150.1	154.7	150.1L
5 Tobacco	122.6	87.0	117.3	122.6H
2 Variety Stores	298.8	219.5	261.2	256.8
17 Unclassif'd ('49 Cl.—100)	168.9	137.2	156.4	156.4

H—New High for 1957-1958. L—New Low for 1957-1958

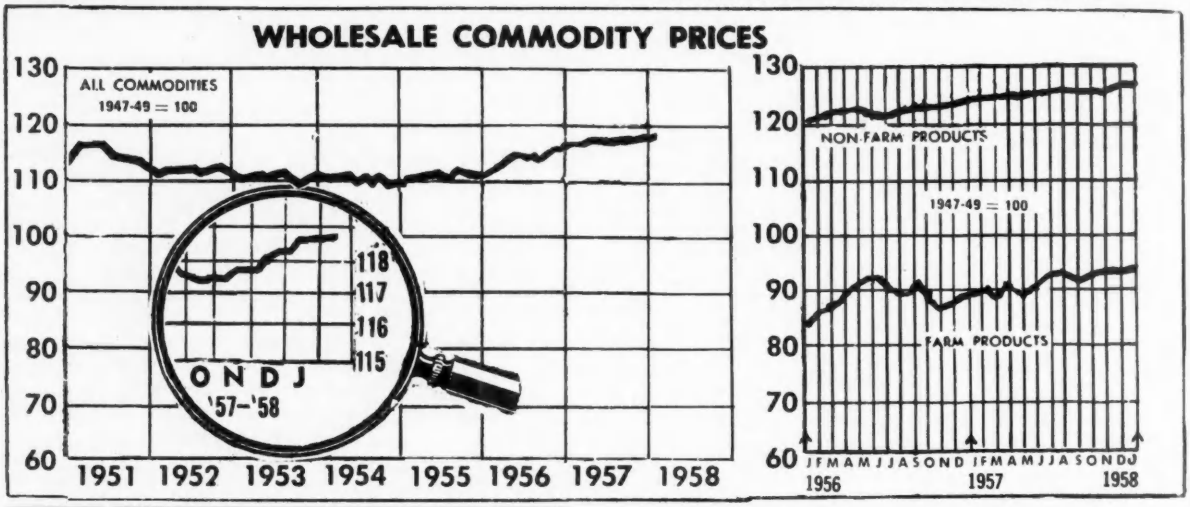
Trend of Commodities

SPOT MARKETS—The rise in sensitive commodity indexes in recent weeks has been due to inclement weather rather than reviving business. Perishable foods have been most seriously affected as cold and snow seriously damaged fruit and vegetable crops, even in the deep South. Prices of fresh fruits, vegetables and potatoes have risen sharply as a consequence. Livestock and meat prices have strengthened as ranchers were unable to ship animals to market.

At the same time, raw industrial materials that are not affected by weather have remained in a relatively narrow range, with small gains having little forecasting significance. In a relatively short time, weather conditions should improve and the movement of the sensitive commodities will then recapture their usual significance.

FUTURES MARKETS—The weather took a hand in recent futures markets, propelling prices upward for crops damaged by rain, snow and cold. Potatoes were sharply higher as the result of crop damage, onions rose because of injurious rain storms and feeds rallied due to their use in place of frozen pasturage. The Dow-Jones Commodity Futures Index added 3.51 points in the two weeks ending February 18, to close at 157.69.

Wheat prices were strong in the fortnight under review and the May option rallied 6½ cents to close at 215¾. Net placements of wheat in the loan as of January 15 amounted to 199 million bushels, some 20 million ahead of the same date last year. However, exports are sluggish and sales of government-owned wheat continue. These forces can provide something of a barrier to sharp wheat advances from current levels.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Feb. 11	118.8	118.8	117.0	60.2
Farm Products	Feb. 11	95.5	94.3	88.8	51.0
Non-Farm Products	Feb. 11	125.8	125.9	103.9	67.0
22 Basic Commodities	Feb. 14	85.7	84.9	88.9	53.0
9 Foods	Feb. 14	88.4	87.0	80.9	46.5
13 Raw Ind'l. Materials	Feb. 14	83.7	83.3	94.7	58.3
5 Metals	Feb. 14	87.5	85.5	112.8	54.6
4 Textiles	Feb. 14	78.0	78.5	84.2	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

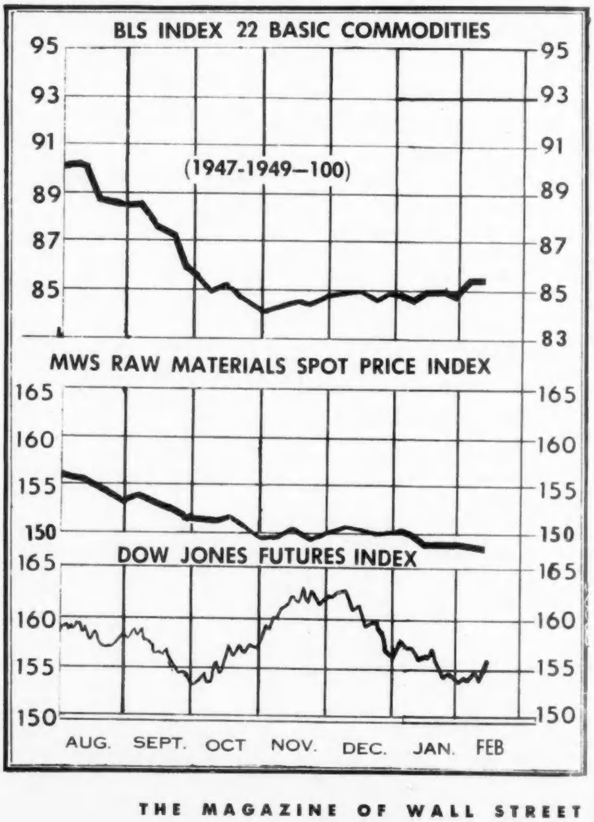
	1957-8	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	148.4	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1957-8	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	153.8	162.7	166.8	189.4	105.9	84.1
Close of Year		163.1	147.9	176.4	96.7	74.3



American-Marietta

in 1957...

Another Year of Solid Growth

Achieved record sales of $234 million . . . $32 million more than in 1956.

Increased net income to $17,182,701 . . . the largest in Company's history and 6% above the previous fiscal year.

Earned $2.21 per Common Share, exclusive of Class B Shares.

Split common shares on 3 for 2 basis. Shareowners received one additional share for each two held.

Raised Common Share dividend income by 25% after stock split. 1957 dividends totalled $6,823,696 compared with $4,934,502 for previous year.

Attained a net worth in excess of $100 million.

Increased working capital by $10,791,348 to an all-time high of $44,766,863.

Entered printing ink field through acquisition of Sinclair and Valentine Company with 48 plants.

Acquired Guardite Company . . . a leading producer of equipment for environmental testing and tobacco processing.

Expanded facilities and markets of Adhesive, Resin and Chemical Division through purchase of Booty Resineers.

Added 1,500,000 barrels to annual cement capacity by building of new production facilities.

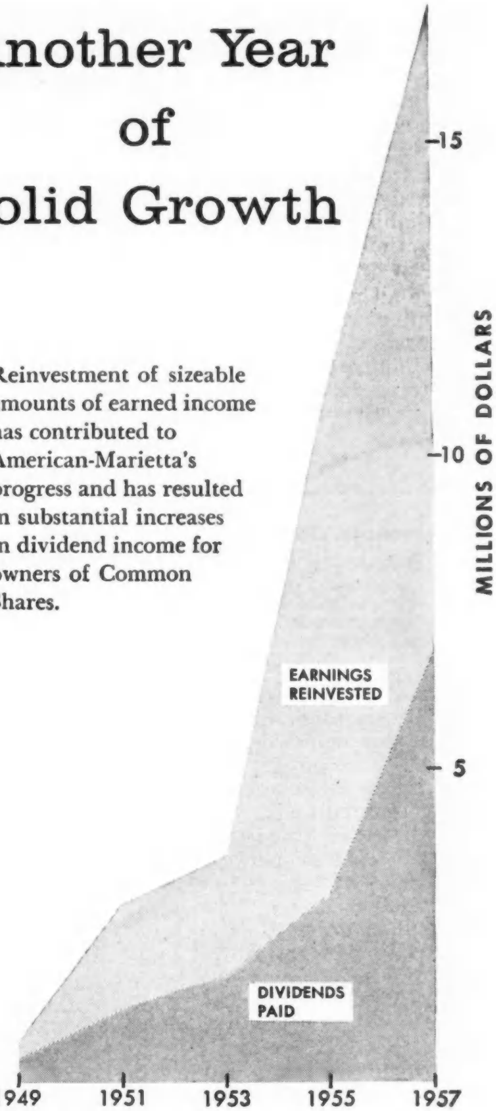
Increased lime capacity and operational efficiency at several locations.

Extended concrete products operations into areas not previously served.

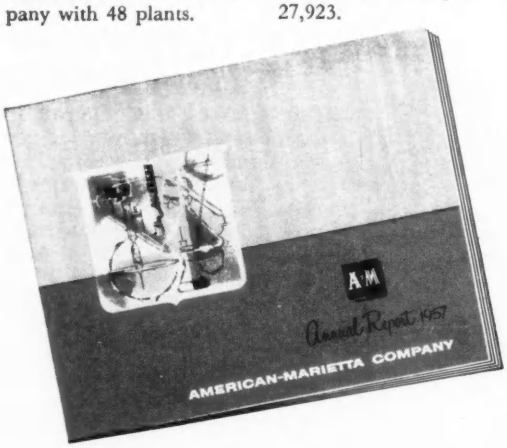
Shipped a record amount of concrete pipe and prestressed bridge sections from enlarged facilities.

Benefited from improved depletion allowance basis applying to raw materials used in cement production.

Had an increase in Shareowners from 21,467 to 27,923.



Reinvestment of sizeable amounts of earned income has contributed to American-Marietta's progress and has resulted in substantial increases in dividend income for owners of Common Shares.



ANNUAL REPORT SENT ON REQUEST WITHOUT CHARGE

Address Department 11

AMERICAN-MARIETTA COMPANY
101 EAST ONTARIO STREET, CHICAGO 11, ILLINOIS

Revelations in Progress Through Modern Research

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The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

American Viscose Corp.

"Will you please give me some information on American Viscose Corp. with earnings comparisons for the past two years and also please include the outlook for the company."

P.C., Cincinnati, Ohio

American Viscose Corp. reported net earnings on its operations and its equity in the earnings of associated companies amounted to $3.73 per share in 1957 compared with $4.22 in 1956. American Viscose earnings declined to $1.65 per share in 1957 from $2.93 in 1956 due to unsatisfactory rates of operations, higher costs of doing business and lower prices for some of its products. Sales also were lower—$227.6 million in 1957 compared with $239.4 million in 1956.

American Viscose's equity in the earnings of its 50% owned companies—the Chemstrand Corp. and Ketchikan Pulp Co. increased substantially to $2.08 in 1957 from $1.29 in 1956 for each share of American Viscose stock. This increase in earnings has been attributed to the expanding operations of these companies and higher sales—$168.7 million in 1957 compared with $128.6 million in 1956.

Viscose shipments of rayon and textile yarn in 1957 were substantially lower than in 1956. Sales of rayon tire yarn, rayon staple and acetate yarn were somewhat larger but were insufficient to maintain satisfactory rates of operation in relation to plant capacity. The company's cellophane business was very good in 1957 with shipments about the same as those for the record year of 1956. Large potential markets for this packaging material are being developed and they will be available when production begins at the new Marcus Hook, Pa., plant. The cellophane business is making important contributions to the company's earnings.

Dividends of $2.00 per share were paid in 1957 and 50 cents quarterly has continued in the current year.

The textile yarn situation does not indicate any improvement over the near term. However, growing cellophane production and expected increase in income from joint company operations are favorable long-term factors.

International Shoe Co.

"I am 75 years old and still going strong. At my age I am not particularly interested in growth companies but prefer stable income issues. Please report recent earnings data on International Shoe Co."

G.L., Philadelphia, Pa.

Consolidated net sales of International Shoe Co. and its subsidiaries for the fiscal year ended November 30, 1957 approximated the record high established in the previous year. Net sales of $266,073,480 in 1957 were three-tenths of one percent below the 1956 record of $266,813,539.

Earnings after taxes totalled $9,577,281 which compares with normal net operating income of $10,748,172 in 1956. Net income amounting to $2.86 per share compared with $3.20 normal operating net income for 1956. Non-recurring items amounting to $1,101,325 increased 1956 net income to $11,849,497 or $3.53 per share.

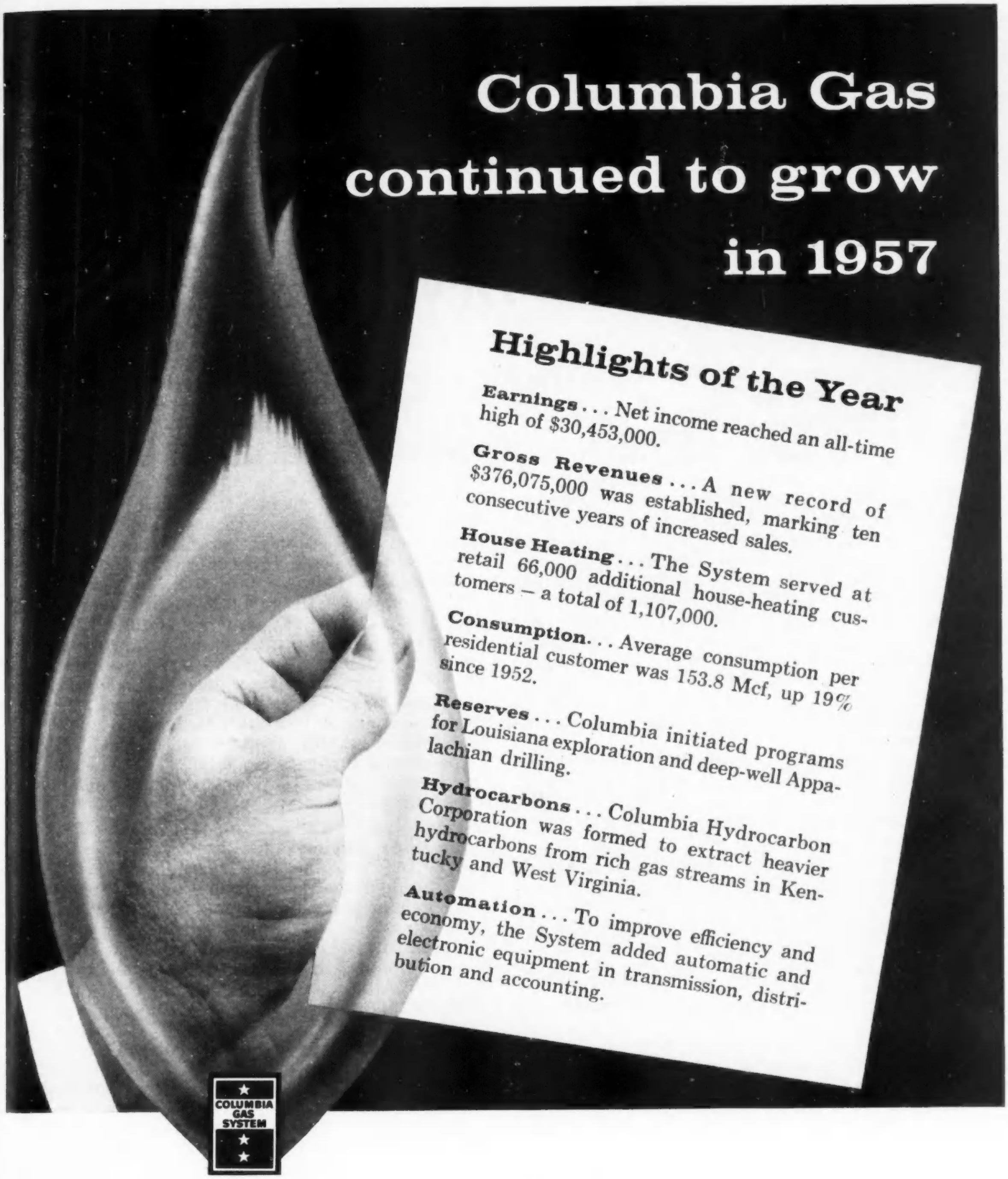
Dividends in 1957 were $2.40 per share, the same as in 1956. The latest payment completed 45 years of uninterrupted dividends.

Sales would have shown a small increase except for a change in making the year-end break on shipments. To avoid partial shipments to customers, the shipping floors were not cleared of shoes as in the past. This resulted in transferring some shipments from 1957 to 1958.

The decline in net income was due principally to the absorption in 1957 of a considerable part of extraordinary costs involved in the major moves begun in 1956 which were continued into 1957. These moves, consisting primarily of consolidation of the non-sales functions of the general line divisions, establishment of regional warehouses, reorganization of sales, and the introduction of the IBM 705 electronic computer, are now largely completed. Similar costs in 1958 will be far less than last year.

Inventories have been reduced to near minimum working levels. Streamlining of selling, merchandising and production programs is well along, and distribution problems, particularly at the retail level, are being solved.

With the majority of these major adjustments either completed, or rapidly nearing completion, the company looks for a good year in 1958. —END



Throughout its service territory – Ohio, Pennsylvania, West Virginia, Kentucky, Virginia, Maryland and southern New York – natural gas continues to be the *preferred fuel* for home and industry. To learn how Columbia is meeting the ever-increasing natural gas requirements of this vital area, write for your copy of our Annual Report.

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COLUMBIA GAS SYSTEM SERVICE CORPORATION
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CHARLESTON GROUP: *United Fuel Gas Company, Amere Gas Utilities Company, Atlantic Seaboard Corporation, Columbia Gas of Kentucky, Inc., Virginia Gas Distribution Corporation, Kentucky Gas Transmission Corporation* . . . **COLUMBUS GROUP:** *The Ohio Fuel Gas Company, The Ohio Valley Gas Company* . . . **PITTSBURGH GROUP:** *The Manufacturers Light and Heat Company, Columbia Gas of New York, Inc., Cumberland and Allegheny Gas Company, Home Gas Company* . . . **THE PRESTON OIL COMPANY**

Keeping Abreast of Corporate Developments

Minneapolis-Honeywell Regulator Co. has introduced a new line of electronic air cleansers, one-third smaller and 30% less expensive than its existing models. At the same time, the company announced the manufacture of activated charcoal filters for installation in new and existing air conditioning fan systems to mask out all odors. By combining the new electronic air cleaner with the charcoal filters, the highest level of air purity and cleanliness possible can be provided, the company claims.

The new electronic air cleaner, known as AC/ME (Advanced Capacity/Maximum Efficiency) is available in four models. The heart of the new design is a cell that employs a new voltage gradient in the plate section. By reducing plate spacing, efficiency is increased and this makes it possible to cut down the size of the units by one-third.

Pennsalt Chemicals Corp. stated it is building a plant to make ammonium perchlorate, a compound which can be used in solid missile propellents, and plans to build a second larger unit to make the same product.

Pennsalt declined to disclose the size of cost of either plant. An official said, however, the unit now under construction was for "commercial scale" production.

The company said the first unit is being built adjacent to a Pennsalt sodium chlorate plant in Portland, Oregon. Sodium chlorate is a raw material for production of ammonium perchlorate. The second plant, according to the company, would be the larger of the two and will be built in the South, but Pennsalt said it has not yet decided on a location.

Pennsalt stated production of ammonium perchlorate and its possible use in missile fuels will supplement the company's work in fluorine and compounds which can be used as liquid missile fuels.

Pennsalt has previously stated it is engaged in a $55 million expansion program which was started in 1956 and will extend through 1961 or 1962. It also had indicated earlier that part of this program was expansion of the sodium chlorate facilities at Portland.

Socony Mobil Oil Co. through its Venezuelan affiliate will build a wholly-owned, $28 million, 40,000-barrel-a-day refinery in Venezuela.

The new installation will be located at El Palito, about 8 miles west of Puerto Cavello. Construction is scheduled to begin early this year and to be completed late in 1959.

The refinery will be built on a site owned by Socony Mobil Oil's Venezuelan affiliate at the terminus of the Barinas El Palito crude oil pipeline, which the company completed last November.

The refinery will produce gasoline, kerosene, diesel fuels and heavy industrial fuel oils. Part of the lighter products will be marketed in Venezuela, while the remainder will go to world markets. Present plans do not envisage shipments of products from this refinery to the U.S. for internal consumption, according to the company.

Firestone Rubber and Latex Products Co., subsidiary of Firestone Tire & Rubber Co., will take over production and distribution of Foamex and other rubber and plastic items at Fall River, Mass., from Firestone Industrial Products Co., which will continue to produce and distribute complete molded rubber products line, including semi-pneumatic tires and new Airide automobile air springs at Noblesville, Indiana.

Heyden Newport Chemical Corp. has started commercial production of new weed-control chemicals with special industrial and agricultural applications.

The chemicals are a new and important group of herbicidal compounds based on two, three, six trichlorobenzoic acid. Ultimate multi-million pound production is anticipated by Heyden Newport. Tonnage commercial shipments have already been made overseas under special arrangements. The new herbicides are expected to be in commercial use both here and abroad during the 1958 growing season. A worldwide marketing program for these compounds is under preparation now and will be announced shortly, the company reports.

The start-up of production, in newly constructed facilities at the company's Fords, New Jersey works, marks the culmination of more than five years of intensive research, development and field evaluation of the new herbicidal compounds. The weed control chemicals are the (*Please turn to page* 720)

UNION CARBIDE

UNION CARBIDE CORPORATION

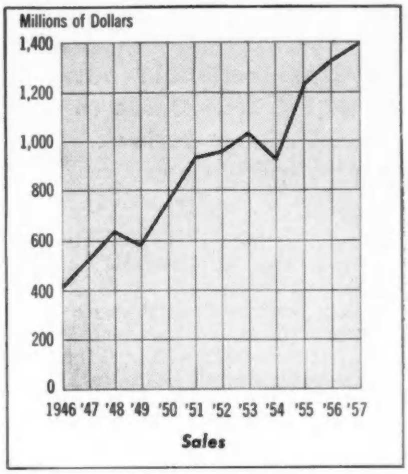
1957 Annual Report Summary

	1957	*1956*
Sales	$1,395,032,817	$1,324,506,774
Net Income	133,740,818	146,233,444
Per Share	4.45	4.86
Dividends Paid	108,307,512	91,956,493
Per Share	3.60	3.15
Earned Surplus	605,530,309	580,097,003
Current Assets	$ 639,190,691	$ 715,406,189
Current Liabilities	216,302,892	237,656,800
Total Assets	1,456,353,350	1,459,748,536
Shares Outstanding	30,067,123	30,088,510
Number of Stockholders	123,943	118,391
Number of Employees	77,000	79,000

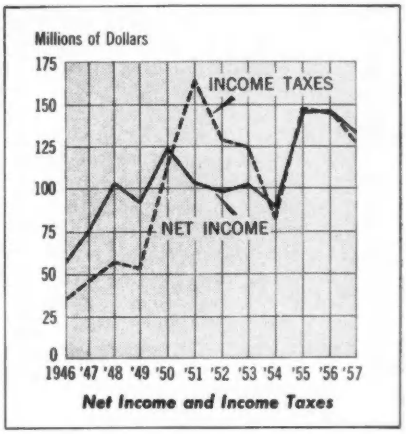
Copies of the complete 1957 Annual Report of Union Carbide Corporation will be furnished on request. An illustrated booklet describing the products and processes of Union Carbide also is available. If you wish copies of these booklets, please write to the Secretary, Union Carbide Corporation, 30 East 42nd Street, New York 17, N. Y.

UCC's Trade-marked Products include

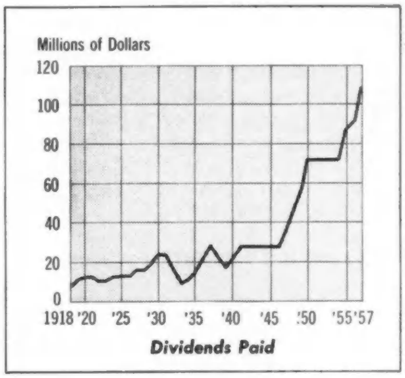
BAKELITE, VINYLITE, and KRENE Plastics • VISKING Food Casings • PRESTONE Anti-Freeze
PYROFAX Gas • UNION Calcium Carbide • NATIONAL Carbons • SYNTHETIC ORGANIC CHEMICALS • HAYNES STELLITE Alloys • EVEREADY Flashlights and Batteries • LINDE Oxygen
PREST-O-LITE Acetylene • VISQUEEN Plastic Film • UNION CARBIDE Silicones • ACHESON Electrodes • ELECTROMET Alloys and Metals



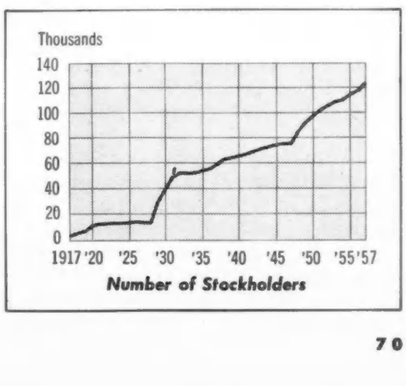
Sales



Net Income and Income Taxes



Dividends Paid



Number of Stockholders

Why Gross National Product IS NOT a True Guide to the Business Outlook

(*Continued from page* 670)

National Income Division which prepares the statistics, has pointed out that:

"It has been our universal experience that the often rather substantial errors which have been made in our detailed individual component estimates have tended to offset each other when the various series were aggregated, and that the errors in the broader components and totals of the income and product flow were substantially smaller. Offsetting error is the guardian angel of national product measurement, and I would not like to see the day when it ceases to operate in our behalf. The situation might be as devastating as that described in a story in the *New Yorker* a few years ago, when all office workers decided to leave Manhattan by the George Washington bridge."

The trouble, as Mr. Jaszi readily admits is that "quantitative measures of error cannot be provided" to give users of the GNP figures an idea of the reliability of the figures. He advised users of GNP figures to "examine whether they give a plausible account of economic events" and to "make maximum use of external evidence . . ." In other words, the GNP figures are not meant to be relied on to the exclusion of all other economic data; they need filling out and confirmation by simpler economic statistics and direct business experience.

Analyzing a 1958 GNP Forecast

Economists who forecast GNP generally estimate individual components first and then add them to get GNP. Needless to say, the detailed estimates are carefully made and great effort is executed to make sure that they are consistent with one another. Nevertheless, there is inevitably something mechanical about this procedure.

The trouble is that the economy is not a machine. It is a vast complex whole in which every part is organically related to another part. The effects of a change anywhere in the economy spread and spread till the influence is almost imperceptible. It is impossible, in the current state of economic science, for the GNP forecaster to take full account of these interrelationships.

It may be instructive to examine one of the recent GNP forecasts from this point of view. The forecast, on the bearish side, figures 1958 GNP at $428 billion, down from 1957's $434 billion. The table below compares the projection with 1957.

Plant and equipment spending is figured to fall $4.6 billion, and inventories to be lightened by $4 billion while residential construction, reflecting the anticipated easier availability of mortgage credit, is calculated to rise $1.2 billion. As the table shows, gross private investment altogether is figured to fall $7.4 billion. Net foreign investment, reflecting a smaller U.S. export surplus in 1958, is figured to fall $2.7 billion. On the other hand, Government purchases are slated to rise $2.2 billion, the net reduction in GNP so far being $7.9 billion.

Paradoxically, consumers, given $7.9 billion less to spend by other sectors, are nevertheless expected to spend $1.9 billion more than they did in 1957. Significantly, all of this increase is put in purchases of services, the least reliable area of the consumer expenditure statistics. Rising unemployment, short work weeks, fear of lay-offs to the contrary—consumption spending is figured to rise inexorably in spite of all these actual and psychological deterrents.

Summing Up

There can be no doubt that the GNP figure is a useful one. But it is equally clear that it is far from an adequate tool for economic forecasting. It needs to be supplemented by other, more basic, statistics and by direct reading of the state of the economy.

A high GNP figure can be synonomous with widespread unemployment and a low rate of production in manufacturing industry because of the weight given to sale of services and Government purchases.

The business man and investor interested mainly in the state of manufacturing and trading business needs to remember that as valuable as the GNP is, it can be seriously misleading if it is not used with due regard for all the qualifications concerning it. In business forecasting, as in other areas, old fashioned approaches still have virtues not duplicated by the modern techniques.

The strategic sectors to watch in the weeks and months ahead are the consumer and business spending patterns. If signs of revival appear, one of the first statistics to react will be the Commerce Department's series on manufacturers' new orders. With a rise in order volume, increased production naturally follows. The anticipated strength in spending by Government can be expected to develop but the other great area from which support is expected—the consumer—is more doubtful. Here statistics and direct business experience reinforce one another. The careful business man will be watching figures on retail sales, both the department store figures which are released weekly by the Federal Reserve Board and the more comprehensive series on all retail sales put out monthly by the Commerce Department. It is more than a question of whether the consumer is going to fail to spend what is expected. For the idea that inventory reduction will run its course before too long is based on the premise that retail demands hold up. If they do not, the inventory cuts now going on will

TABLE NO. 1

Billions of Dollars	1957	Est. 1958	Chg.
Gross Private Investment	$ 63.6	$ 56.2	−$7.4
Net Foreign Investment	3.3	0.6	−2.7
Government Purchases	86.6	88.8	+2.2
Subtotal	153.5	145.6	−7.9
Personal Consumption Expenditures	280.4	282.3	+1.9
Durable goods			
Nondurable goods	140.0	140.6	+0.6
Services	105.4	108.1	+2.7
Total GNP	$433.9	$427.9	−$6.0

TABLE NO. 2
Personal Consumption Expenditures
(billion dollars)

	Total	Durable Goods	Nondurable Goods	Services
1948	177.6	22.2	98.7	56.7
1949	180.6	23.6	96.9	60.1
1950	194.0	28.6	100.4	65.0
1951	208.3	27.1	111.1	70.1
1952	218.3	26.6	116.1	75.6
1953	230.5	29.8	119.1	81.7
1954	236.6	29.4	120.6	86.6
1955	254.4	35.6	126.0	92.8
1956	267.2	33.9	133.3	99.9
1957	280.4	35.1	140.0	105.4

leave inventories still excessive in relation to the reduced volume of sales and a downward spiral will be underway.

Whether or not this happens is the key to the business outlook in the next few years. In business, as in any other activity, forewarned —by one's own observations or by such leading indicators of business activity as the *Magazine of Wall Street's* Business Trend Forecaster—is forearmed.

EDITOR'S NOTE: Mr. Stephen is referring to our "Business Trend Forecaster", which appears in every issue in "The Business Analyst"—and has been so highly accurate these past several years. Since our economy is predominantly industrial, we use Industrial Production as the key to business activity, and balance it against the state of our economy as indicated by the relative strength of the 8 sensitive and significant economic components.

Labor Bosses Attempting to Tyranize Our Economy

(*Continued from page* 673)

not merely by trade unionists. "Whoever receives a higher money income gains relative to others who do not, and there is nothing in the argument to indicate why union laborers any more than anyone else should be chosen to have this agreeable privilege of mysteriously spreading prosperity in this way."

Without mentioning the Reuther "sharing plan," the economist sounds a warning to business and to the public: "It is more than a possibility that, especially with the drive for industry-wide uniformity, that much that is vital to the competitive character of our economy, and which is responsible for its high efficiency, will be lost through a substantial invasion of the management area by labor, and that the public will awake one day to find that a degree of economic control, which it would never have tolerated in the hands of businessmen, has already passed into the hands of someone else."

Proposal to Break Up Labor-Industry Power Combinations

Industry-wide uniformity in respect to both management and labor is holding the attention of Capitol Hill. George Romney, president of American Motors Corporation saw evil in both, when he testified before a Senate antitrust subcommittee. Specifically he wanted General Motors, Chrysler, and Ford split into smaller companies and the bargaining monopoly of UAW in the automotive industries parceled out —restoration of the concept of employees bargaining with their employers, through unions exclusively representing the payrollers of a single employer. If industry-wide demands are permitted to stand in the Spring, auto wage bargaining may send "another blockbuster chain reaction wage-price spiral across industrial America," Romney put it.

Romney, head of one of the few independent auto companies in business, proposed a break-up point at 35 per cent of the total sales in its industry; if engaged in more than one basic industry, 25 per cent. If applied today, the plan would split GM and Ford into two or more companies. But, Romney assured, benefits would flow to stockholders, executives, employees, and customers. Under the club of UAW labor demands car prices have spiraled right out of the consumer market, leaving wide space for small, less expensive, foreign cars to move in. The industrialist described the technique of the auto workers union thusly: "Each year it concentrates its monopolistic power on the auto producer who has been most profitable. The company knows that if it resists the demand to the point of strike, its competitors will benefit. When it gives in, the unions exact the same terms from the other producers regardless of their size or ability to pay."

Labor Reaps All the Benefits

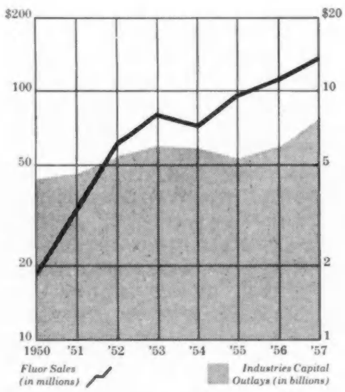
It is inability to pay rather than sales resistance that augurs poorly for the automobile business this year. Dealers expect to move 5.3 million cars this year, against 5.8 million last year, 6 million in 1956, and 7 million in 1955. On the 36-month payment basis the purchasers of the big year 1955 should be coming into the market this year. There's little evidence of it. Cost is the answer: the car that sold for $1500 in 1947 had gone up to $1950 by 1955, sold for $2110 last year, and carries a price tag of $2200 this year. It may be a prettier, shinier and more gadgeted automobile than it was thirty years ago but the corner garage man can tell you it isn't the serviceable or high quality piece of machinery the older make was although it costs 400 per cent more money to buy. Yesteryear's product was a sturdy, durable vehicle. Fenders were made of heavier gauge steel, designed to last. Today's papier-mache-like fender panels crumple up like an accordion at the least impact, and are exceptionally expensive to replace or repair. Bumpers on the old cars were what the name implies. Today's are mere decorations affording little, if any protection. The answer is clear: as wages have skyrocketed into outer space, far beyond the possibility of pricing the car upward to meet the costs, deterioration in materials selection, and in time and attention to mechanical detail has set in. So today the buyer is getting much less for the dollar two ways: he pays more for an inferior vehicle, by the standards of thirty years ago.

It should be clear to union cardholders that they too, are consumers and are losing by paying higher prices for low quality.

But they're paying in another way also: the public's inability to meet the high prices resulted in extended layoffs of workers over the recent holidays, particularly at Ford Motor Company and Chrysler Corporation factories. Already dealers are holding inventories estimated at approximately 800,000 cars. The lagging car sales are affecting the steel industry too, with layoffs by a number of mills as 1957 steel output fell almost 2 million tons from the year before.

(*Please turn to page* 712)

Report on the Progress of The Fluor Corporation, Ltd.



Fluor's engineering-construction sales to the petroleum, chemical and electrical utility industries have increased dramatically in the past eight years. Since 1950, Fluor sales to these three dynamic industries have shown a 562% gain. In that same period, capital expenditures by these industries have grown 67%.

Record fiscal year produces highest sales and net earnings in the history of this international engineering-construction firm.

Fluor's remarkable growth during the past eight years culminated in new records, both for consolidated sales and net earnings, during the fiscal year ended October 31, 1957. The company's year-end backlog of uncompleted work also was the highest in its experience. Shareholders' equity in the company reached an all-time high, showing a one-year increase of $2,763,334, or $2.67 a share, after the payment of $768,118 in dividends. Net earnings represented a return of 16.6% on shareholders' equity. (The company has earned an average of 16.4% on shareholders' equity since 1942.) You can secure a copy of Fluor's 1957 Annual Report by writing to Department F, The Fluor Corporation, Ltd., 2500 S. Atlantic Blvd., Los Angeles 22, Calif.

Highlights from Fluor's 1957 Annual Report *(Fiscal years ended October 31)*

	1957	1956
Sales	$152,432,935	$120,850,525
Net earnings	2,632,672	736,550
Per share*	3.46	1.03
Dividends—per share*	1.05	1.00
Net working capital	9,069,304	6,931,181
Shareholders' equity	15,861,243	13,097,909
Backlog, October 31	150,000,000	121,000,000

**Adjusted for 20% stock dividend in 1957. Current annual dividend rate, $1.20 per share.*

Organized labor blames industry for the price rise. It's argued that Ford spent $185 million to develop its 1958 styles, and $246 million on the 1957 cars that took sales leadership from Chevrolet. This year Chevrolet remodeled at a cost of $300 million. Another trend pushing costs up is the multiplicity of models. Ford now offers 21 models with choice of four engines and two wheelbases. Chevrolet now has 17 models in passenger cars and station wagons. Plymouth has 19 models with choice of six engines.

Other Labor-Management Battles Brewing

Labor war is not being plotted only by unions in the automotive and communications field. It is generalized. The International Association of Machinists is conducting a referendum among its 2,099 lodges and more than 1 million members on whether to set up a $35 weekly strike benefit in place of the present $10 payment. The proposal provides a 70-cent increase in monthly per capita payments to the Grand Lodge, 50 cents of which will go into the strike insurance fund. At least one of the major appliance manufacturing companies is being eyed as a target by James Carey, secretary of AFL-CIO.

The foregoing highpoints the problem. Where is the solution to be found? In Congress? Not unless a realization of the economic dangers which are ahead overcomes strong political motivation to "lay off of the unions." Bills to regulate labor are numerous. The Eisenhower - Mitchell - AFL - CIO program would have unions make complete disclosure of their financial transactions, as many of them – the larger ones – do today. It would make some procedural changes in a going system. President Eisenhower tipped off Administration attitudes in his special message on labor: "Union officials–most of whom are decent honest Americans–are also doing much to eliminate the few in the ranks of organized labor who are corrupt."

There are bills to outlaw the union shop, ban industry-wide bargaining, subject unions to anti-trust laws, tighten curbs on picketing, and restrict their political activity – already barred (much the same as "dry" Oklahoma which issued a mandate that no liquor may be sold in the State Capital while the legislature is sitting).

Labor's forecast of the legislative results was well expressed by the communications workers, whose spokesman said:

"The threat of restrictive labor legislation remains, but new developments appear to be dulling the anti-labor moves. Among the developments are:

"1. The international crisis and appearance of sputniks.

"2. The economic downturn.

"3. Strife within the McClellan Committee.

"4. 1958 is an election year.

"5. Decisive anti-corruption action by AFL-CIO."

The single proposal which worries the labor bosses more than all the rest is that which recognizes unionism as it exists today to be monopolistic and acts to treat it as such by subjecting it to the Sherman and the Clayton anti-trust laws. Anti-monopoly legislation didn't abolish business; in fact it improved behavioristic patterns that sorely needed it. Unions stand today in the same position: they are in need of Congressional assistance to strengthen the good and root out the evil. As business did, labor can profit from more democratic processes, more goldfish bowl operation. To complain that attainment of those objectives would end unionism is tantamount to saying it should be ended! —END

Paper Industry Under Adjustment

(*Continued from page* 686)

New Financing and Expansion Programs

Several paper companies in the industry have had to go into the investment market for funds and this trend is likely to continue, in spite of the reduction in the expansion program. Kimberly-Clark, for example, recently sold $30 million of debentures and West Virginia Pulp & Paper has sold $40 million of debentures. Mead has arranged $7.5 million in long term bank loans. While such financing is being accomplished at somewhat lower interest rates than would have been necessary a year ago, owing to the easing of the money market, it appears that the servicing of this debt will often entail some temporary dilution in earnings on the common stock, offsetting advantages obtained from installing additional facilities.

Over the longer range, the industry's big expansion program should pay for itself handsomely. It cannot be said that the industry made any mistake that could have been clearly foreseen when the program was undertaken. Fully two years and in some cases four year are required from the time when an expansion is first contemplated until initial production is obtained from a new paper mill and long range forecasts of demand are notoriously subject to error. Hence, throughout 1958, additional machines will be coming into production, at a time when capacity is temporarily more than sufficient, because of the decline in general business. Normally, on a gain of 10 per cent in business, the paper market can be counted on to grow more than 10 per cent, owing to new uses which are constantly being developed. But when the economy starts down, paper is not recession proof.

Some of the new expansion was needed, in any event, to replace obsolete high cost facilities. In other cases, the new installations permit cost reductions, by permitting full use of sawdust or other waste materials in making paper.

Certain areas of the paper market are also constantly moving ahead, owing to new trends in packaging or in self-service sale of groceries, requiring new paper-making equipment.

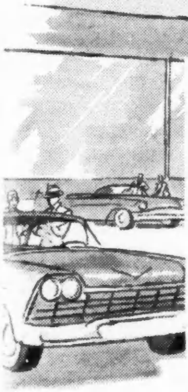
Research on New Products

Intensified research is constantly creating new paper products, giving rise to needs for new machinery. Champion Paper is introducing a new type of metalized paper. West Virginia Paper has recently developed a stretchable paper. New combinations of paper with plastics or with aluminum foil are under constant development, and should result in the creating of new markets. The flip-top box has revolutionized the cigarette industry and gives the folding box industry higher sales.

St. Regis has developed with Monsanto Chemical a unique foamed styrene and paper sandwich material. The product, called Fome-core board consists of a

CREDIT

...packaged for action!



1958 can be one of America's best years—if we back it with confidence and action! Credit plays a vital role in maintaining this confidence, and promoting business activity. It has helped to bring America's standard of living to unmatched heights, by supplying the power to move goods and provide services.

To create fast buying action, credit has to be readily available. Associates specializes in putting credit in suitable packages for the convenient buying of automobiles . . . thus giving the dealer a proven selling aid in moving his cars.

Last year Associates provided over 1¼ *billion* dollars for the retail and wholesale financing of automobiles. In addition to its key role in automobile financing, each year Associates furnishes millions of dollars to American industry . . . and to individuals for family needs.

Again throughout 1958 Associates is continuing its significant service to our dynamic economy—making available its ample financial resources to facilitate the uninterrupted movement of automotive and other products.

ASSOCIATES 1957 FINANCIAL REPORT

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	Dec. 31, 1957	Dec. 31, 1956
Cash and Marketable Securities	$ 90,379,297	$ 90,150,167
Receivables:		
Retail motor vehicle installment receivables	$711,007,982	$700,367,608
Wholesale motor vehicle short-term loans	109,199,276	72,102,682
Direct and personal installment loans	75,048,989	62,836,287
Commercial and other receivables	48,888,754	40,278,730
	$944,145,001	$875,585,307
Less: Unearned discounts	58,242,489	54,429,155
Reserve for losses	22,717,549	22,314,277
Total receivables, net	$863,184,963	$798,841,875
Other Assets	24,372,863	16,038,965
	$977,937,123	$905,031,007

LIABILITIES	Dec. 31, 1957	Dec. 31, 1956
Notes Payable, short-term	$410,355,800	$436,556,800
Term Notes due within one year	38,968,000	28,021,000
Common Stock Dividend payable January 2, 1958	2,086,807	2,031,557
Accounts Payable, Accruals and Reserves	36,046,112	37,481,065
Unearned Insurance Premiums	28,194,731	29,227,061
Long-Term Notes	243,964,000	182,300,000
Subordinated Long-term Notes	80,034,000	65,600,000
Preferred Stock	20,250,000	22,500,000
Common Stock	32,104,720	31,254,720
Surplus	85,932,953	70,058,804
	$977,937,123	$905,031,007

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Year Ended Dec. 31, 1957	Year Ended Dec. 31, 1956
Discount, interest, premiums and other income	$132,473,577	$122,457,993
Operating expenses	96,397,124	86,919,697
Net income before Federal income tax	$ 36,076,453	$ 35,538,296
Provision for Federal income tax	15,545,000	16,030,000
Net income	$ 20,531,453	$19,508,296
Consolidated net earnings per share of common stock after payment of preferred dividends	$6.11	$5.93

Associates

Commercial and Installment Financing

ASSOCIATES INVESTMENT COMPANY
ASSOCIATES DISCOUNT CORPORATION
and Other Subsidiaries
HOME OFFICE • SOUTH BEND, INDIANA

core of stiff foamed styrene plastic with a sheet of kraft paper on each side. This "wet-proof" material will be used in packaging frozen and refrigerated products. It may eventually compete directly with more expensive wooden boxes now used at the rate of nearly 150 million a year. Similarly, St. Regis has developed a process for rolling rayon and other synthetic fibers on paper machines, to form a new type of durable packaging material, to compete with textile bags.

The export market is another field in which the paper industry has high hopes for the future. Few good timber growing areas are easily available abroad, and if the industrialization of foreign countries proceeds rapidly, new export markets will be created for America paralelling those which have been developed for Canadian newsprint.

On the unfavorable side, the paper industry must count on such developments as increased competition in packaging from plastics and aluminum foil, as well as an increased use of bulk methods, such as carload lot shipments of cement and sugar in bulk.

Another possible source of concern is the tendency of large users of paper, such as newspapers or magazines, to create their own sources of supply, instead of purchasing supplies from paper manufacturers. By the weight of their buying, also, the magazines and newspapers occasionally may make advantageous long term deals at low cost, particularly when operations are well below capacity.

The newsprint industry shares with other paper producers the problems of a temporary excess of capacity and the profit squeeze. North American newsprint capacity has risen 18 per cent over 1950, yet consumption has dipped slightly. Prices of newsprint have been increased insufficiently to offset cost rises, and as a result, profits of newsprint producers as a group both in Canada and the United States have been reduced by one-third in 1957.

Caution Investment Watchword

Summarizing the outlook for 1958, it appears that the paper industry is better equipped to take care of an expansion of its market over the longer term than it is to protect profit margins and assure an adequate return on investment this year. Temporarily, the industry must pay a penalty for the very characteristics of growth which have brought it increased profits until now. Paper stocks sustained a substantial decline since reaching their highs in 1956. For those willing to ride with them through a period of reduced earnings, they may already be attractive. But it seems best to await a more definite signal that the industry has turned the corner before considering investment. —END

The Strength of the West in the Middle East

(*Continued from page* 683)

country which is half Christian—is distinctly pro-west in character and outlook.

On the positive side is, first of all, the solution of the *Jordanian* problem in favor of the West. Jordan, with its majority of Palestinian refugees, had long been the weakest link in the chain of pro-Western countries in the Middle East. Most of its people are more interested in the problem of Palestine than in their own country, and are, therefore, receptive to Nasser's propaganda. In fact, there is no doubt that Nasser had planned to include Jordan in his Greater Arabia scheme. Had Iraq not anticipated this move, Jordan might already have been lost to the West. As it is, it is now in a firm and, apparently, permanent alliance with the Middle East's most pro-Western country. If, as a result of this merger, some of the 500,000 unemployed Palestinian refugees who eke out a miserable existence in the U.N. refugee camps in Jordan, can be resettled in labor-short Iraq, it would point the way to solving the Middle East's stickiest and thorniest problem.

Still another pro-Western feat accomplished by the merger is that it has enabled Iraq to break out of the political isolation into which it had been driven by Nasser because of its alliance with the Baghdad Pact. The merger has greatly enhanced Iraq's prestige throughout the Arab world and has once again made it a serious contender for leadership of the Middle East Arabs. The fact that this has happened despite Iraq's continued adherence to the Baghdad Pact is a political victory for the West.

Strong Anti-Nasser Bloc Emerging

Finally, after an initial hesitation as to which of the two new countries he should support, King Saud has now unequivocally thrown in his weight on the side of the Iraqui-Jordanian Arab Federation. Thus, for the first time since Nasser and the Soviet Union became a factor in the Middle East, a strong, well-defined and well-organized anti-Nasser and anti-Soviet bloc has emerged in the Middle East.

A glance at the map herewith will show that the countries adjacent to Egypt itself are all pro-western—that the shores of Saudi Arabia practically extend the length of the Red Sea, except for little Yemen, which occupies a small area at the tip—with Aden on its frontier, with its port at the mouth of the sea. Then there is Oman extending all the way along the Arabian Sea and into the Persian Gulf. On the other side of the Red Sea we find the Sudan, Eritrea and Ethiopia, all western oriented countries — clearly showing that by wise and intelligent handling of the situation we should be able to maintain a strong position in this area, especially since the oil-rich Arab states have clearly shown their unwillingness to share their wealth with their poorer neighbors — having at the same time expressed themselves against accepting Nasser as their leader.

Besides, Nasser's role in Africa itself is undergoing changes of potential significance to the West. Egypt's relations with its southern neighbor, the *Sudan*, have been deteriorating for quite some time and are now at the point of armed conflict. In the past the main disagreement was over the two countries' respective shares of Nile water for irrigation and hydroelectrical purposes. Such an agreement is a precondition to a start on Nasser's pet project, the Asswan High Dam. So far, the two countries have failed to reach agreement because each wants a bigger quantity of water for itself than the other is willing to give. In addition, the Sudanese government has recently insisted that any new Nile waters agreement should come from a conference including the other two riparian

CONTINENTAL MOTORS · AMERICA'S STANDARD · Powerful as the Nation ®

Facts and Figures

FROM THE 1957

ANNUAL REPORT

HIGHLIGHTS

- Continental Motors and its consolidated subsidiaries, Wisconsin Motor Corporation and Gray Marine Motor Company, had net sales of $135,610,890 in the fiscal year ended October 31, 1957, as compared with $125,116,269 in fiscal 1956.
- Net earnings per common share more than doubled—from 49 cents in 1956 to $1.09 in 1957.
- Wisconsin Motor Corporation experienced a good year, following termination of the strike which closed it down from May 2 to August 15, 1956. It produced a normal profit return in 1957.
- Although the $100 billion highway program has been unexpectedly slow in getting under way, Continental felt its stimulating effect in 1957, and it remains the promising source of engine business in 1958.
- Tests of the multi-fuel hypercycle engine mentioned in the 1956 Report are continuing, and they forecast numerous military, transportation, agricultural and industrial applications for this engine of modern design.
- Production started in late 1957 on two of the small air-cooled Military Standard engines, developed by Continental in collaboration with the Corps of Engineers, United States Army. Additional models are expected to reach the production stage in 1958.
- Military engine production in 1958 will be scheduled in keeping with the 1958 concept of defense requirements.
- The Continental Aviation and Engineering Corporation MA-1A trailer-mounted starter for large jet planes has now passed all qualifying tests and gone into production. Continental Aviation and Engineering Corporation builds the entire unit, consisting of trailer, Model 141 gas turbine air compressor, and controls.
- Continental Motors' air-cooled industrial engine division is going after business in the expanded riding mower field in 1958. It has brought out a new 4-horsepower model in this heavy-duty series, designed expressly for riding mower applications.
- Two new Continental aircraft engines—the G0300-A and the I0470-C—are being added to the production models in 1958. The former, featuring geared propeller, powers the new Cessna 175, due for introduction this Spring, and the latter, the first continuous-flow fuel injection engine, powers the new Beech J-35 Bonanza, just announced.

STATISTICS

Fiscal Years Ended Oct. 31	1957	1956	1955	1954	1953
Engine output (horsepower)	10,549,655	10,783,043	13,876,317	14,659,577	23,073,000
Net sales	$135,610,890	$125,116,269	$145,465,155	$182,061,693	$298,438,605
Net earnings	$3,583,301	$1,604,924	$2,502,287	$4,542,748	$6,023,812
Net earnings per common share	$1.09	$0.49	$0.76	$1.38	$1.83
Dividends per share	$0.35	$0.25	$0.70	$0.80	$0.80
Current assets	$64,454,365	$59,262,735	$58,115,700	$67,362,396	$104,895,088
Current liabilities	$30,598,007	$28,304,638	$27,553,219	$35,667,076	$72,618,572
Net working capital	$33,856,358	$30,958,097	$30,562,481	$31,695,320	$32,276,516
Ratio of current assets to current liabilities	2.1 to 1	2.1 to 1	2.1 to 1	1.9 to 1	1.4 to 1
Long-term debt	$2,480,000	$2,760,000	$3,040,000	$3,320,000	$3,600,000
Property, plants and equipment (net)	$16,223,841	$16,547,581	$17,219,239	$16,654,419	$14,085,545
Stockholders' equity	$47,557,824	$45,129,523	$44,349,599	$44,157,312	$42,254,564
Book value per common share	$14.41	$13.68	$13.44	$13.38	$12.80

Continental Motors Corporation
MUSKEGON, MICHIGAN

territories, Uganda and Ethiopia. This has been rejected by Egypt, since it would give these two strongly pro-Western countries a direct voice in the control of her major natural resource.

To this existing dispute between Egypt and the Sudan has now been added a new and more explosive one in the form of a territorial claim against the Sudan. According to the latest reports, Nasser has taken over the disputed territory in order to annex it to his United Arab Republic. The Sudanese government is protesting the annexation, and is preparing to bring the case before the Arab League of which it is a member in good standing. Thus, we have another instance of the widening cleavage between the Nasser regime and some of the other Arab countries.

At the moment the only place in the Arab world where Nasser is apt to pick up some support is North Africa. The main reason here is the bombing of the Tunisian border village of Sakiet-Sidi-Youssef by the French airforce. It has stirred up such tremendous resentment throughout the area that the stature of the liberal and pro-Western Tunisian president Habib Bourguiba has temporarily declined at the expense of the Egyptian leader. The recent meeting of the leaders of the Algerian Liberation Front in Cairo instead of Tunis, shows how quickly the anti-Western forces have taken advantage of the situation.

So far, Nasserism is still only embryonical in North Africa, but incidents such as the French bombing help greatly to develop it. Now, President Bourguiba has sought to temper his stringent demands, accepted U.S.-British mediation and postponed the United Nations inquiry.

As this writer, who talked to him personally at great length just a couple of months ago, can testify, Bourguiba is neither anti-French nor pro-Nasser. In fact, he is one of the most solidly and sincerely pro-Western statesmen anywhere in the Afro-Asian world. He is also the most important personality in North Africa, and may well one day be the head of a united North African Federation, the great dream of all Arabs of that area. Such a bloc would add additional strength to the Western position and be a considerable setback to Nasser's proven ambitions. —END

New Realism Needed In Deciding On Plant Locations

(*Continued from page* 677)

Growing Recognition of Social "Climate"

Workers can be taught quickly how to operate machines.

In association with their emphasis upon the value of linkage, the power company recognizes the importance of an attractive environment for employees of the producers. Its Research and Development division helps to plan layouts not only of the plants but of these areas that will be called "home" by the workers. The company also makes available to communities already established nearby, "municipal workshops" where citizens may listen to experts on planning, discuss their common problems and hopefully put their ideas in work.

The Vanadium Corporation of America found it necessary to move one of its plants from Eddystone, Pennsylvania. Its Plant Manager, in a talk before the Great Lakes Industrial Development Council meeting in Peoria, Illinois last year, discussed the procedure in making the shift. He presented many reasons for the final selection of Cambridge, Ohio as the location for their new plant, stressing among them the social aspect. Toward the close of his address, he made the following statement: "...if I were asked to name just one reason for selecting Cambridge, I would have to say it was because of the enlightened business leadership as represented by organizations such as the Cambridge Industrial Association and the Chamber of Commerce." But this was not all. He said further: "We have found Cambridge, Ohio a good place in which to live, to do business and to raise our families. We feel that we belong, that we are a part of the community, and we are quite happy that *our management felt that social factors were important in determining the location for our new plant.*

Roy W. Johnson, Vice President of the General Electric Company, in a recent effective address, "Community Assets in Location of New Industry," placed

considerable emphasis upon the role of social elements in producing a climate attractive to industry. He referred to their guide containing 187 questions which his company uses in determining the quality of prospective locations for its plants. Among a well balanced series of eight considerations we cite the following one:

"*Social, Cultural and Educational Institutions:* A social and cultural atmosphere that will attract and hold good professional employees, including good and adequate schools, an enlightened press, radio and TV, and an abundance of healthful recreational opportunities."

Someone has referred to these social elements as a form of "fringe benefits." The role of the human factor in the selection of the locations of their 85 or more branch plants has been emphasized by still other members of this vast organization. More recently their public relations director stressed the same points insisting that the individual is still vital in the progress of a community and that this philosophy is of concern to industry.

Problems of Location

We would be remiss, if in considering the problem of location, we failed to note that the "shield" has two sides. If we look at the reverse side, we find that a new plant can damage a community as well as itself in the long run if its proprietors fail to examine fully all locational characteristics. If an industry locates where labor is insufficient with the intention of supplementing it by importing from other parts of the country, there is a possibility that the only substantial reservoir which could be tapped consists of low-standard individuals. Such importations dilute the quality of the resident stable population. Often they are the type that fail to maintain adequately the properties they occupy and frequently are the principal customers of undesirable retail businesses. They are not thrifty, and when out of work for extended periods of time throw themselves upon public charity. Local taxes often increase. Downgrading of a whole neighborhood or the entire community in terms of livability and cost of living may follow. And ultimately the very industry which

initiated the situation may depart or, other industries heretofore dependent upon labor of a higher order may decide to leave.

Industries can pollute streams and the neighborhood air. They can make noises that disturb the quiet of the locality. They can generate traffic to create not only noise, but congestion on the community streets and avenues and hazards to life and limb. These, too, are elements which can be self-defeating and create such local antagonisms as to interfere with industrial growth. Happily the indifference of a former day is fast disappearing and owners of plants are finding the elimination of all of these adverse effects, even when the cost of so doing is substantial, to be profitable.

Any discussion of problems associated with the selection of locations for industrial plants and the maintenance of the virtues of a location should include a look ahead. As we have seen, locational qualities are not permanent even though sites are fixed. What may seem improbable now, may shortly become a reality.

The jet plane which now flies at speeds of 500 to 1000 miles per hour will eventually carry freight in substantial quantities, not merely small package freight but cargoes of machinery and many other sizeable and heavy products. When this happens, sooner than we think, perhaps not more than a decade away, all the earth's industries will become close neighbors. Their locations and their markets will have shifted relatively. Competition will become even keener. For example, the Ruhr District of Germany will be just "around the corner" from the Pittsburgh-Youngstown steel area. The paper manufacturers of Finland and Scandinavia will be "just across the street" from corresponding manufacturers in New England and Wisconsin. No plant will have a significant competitive advantage over another in terms of distance, and although there are those unwilling to believe planes will transport raw materials, we can be certain that the potash of Germany, the tin of Bolivia, the copper of Northern Rhodesia, or the tungsten of China, as well as hundreds of other raw materials and finished products will be only a matter of a few hours away from our receiving platforms. The new European Common Market, should it succeed, will offer American producers keener competition. This is not mere fantasy. Only twenty years ago the "experts" were saying planes would never fly long distances or carry heavy loads; that they would be mere adjuncts of the lighter-than-air craft. Everyone now knows how mistaken those prophecies were. Wise manufacturers will weigh carefully these prospective momentous developments which will set the stage for still other revolutionary changes, changes which will affect profoundly, their own business future and the whole economic and social structure of our way of life. —END

Companies With a Stake in Zip Fuels

(*Continued from page* 689)

900 pounds and give the rocket an almost limitless range on a small fuel supply. Scientists have no doubt of their ability to build a satisfactory fusion engine, but most conservative estimates place the development at least twenty years in the future.

Investment Outlook

One source of concern among investors is that newly developed fuels will quickly render older ones obsolete, seriously affecting the fortunes of the companies in production. No definitive answer can be given to this question, but the evidence suggests that there will be a continuing demand for most rocket fuels, regardless of ultimate developments.

The reasons are fairly obvious. Not all rockets will require the potent new fuels for efficient operation. Even today, for example, several of the operational smaller missiles operate on kerosene mixtures, already developed solid fuels, or such prosaic and plentiful materials as hydrogen-peroxide. The boranes will satisfy a wide range of missile needs once they have been perfected in the solid state, and will find other markets as aviation fuel additives, once the costs of production have been brought under control.

The newer fuels will be created to suit special problems. They will not displace the older ones.

None of this means that there are handsome profits immediately ahead. Rocketry is still in its infancy. But the rapid strides being made lend hope that within the next decade there will be profitable markets for the growing list of "zip" fuels. —END

For Profit and Income

(*Continued from page* 697)

national Nickel, Johns-Manville, Joy Mfg., Kaiser Aluminum, Kennecott, Monterey Oil, National Steel, Owens-Corning Fiberglas, Pure Oil, Rayonier, Reynolds Metals, Shell Oil, Skelly, Standard Oil of Indiana, Sunbeam, Thompson Products, Union Carbide.

Conservative

Around 28 in a 1956-1958 range of 36-24¾, yielding about 5.7% on a secure $1.60 dividend, Union Tank Car is a sound value for conservative investment accounts. Earning power is around $2.50 a share, should be well-maintained this year and is subject to gradual long-term growth. The business (mainly leasing a large fleet of tank cars to major oil companies) is fairly stable. Dividends have been continuous since 1914. There have been several boosts in the rate in the postwar period to date.

New Tests Market Must Meet

(*Continued from page* 667)

above 5%. It would also be unprecedented, even if not impossible, for stocks to rise greatly from a level at which dividend yield is less than 30% in excess of bond yield, against 100% or more at the market's 1953 and 1949 bottoms. When one weighs potentials in individual stocks, comparing present price-earnings ratios and yields with those at really deflated past market levels, the conclusion is that most issues are either adequately priced or over-priced, few are under-valued. In the general picture as we see it, there is nothing seriously disturbing—but there is not a great deal to "go for" in the market. Accordingly, our conservatively selective policy is unchanged.

—Monday, February 24

What's Ahead for the Food Processors and Merchandisers

(*Continued from page* 695)

expectation that dividend payments will become more liberal, but also that sales and earnings gains will slow down. Whether or not such a slackening in the rate of progress is ahead, the grocery chain stocks, even after their recent advance, are mostly selling at more conservative prices in relation to prospective 1958 earnings than the leading industrial stocks.

In short, this review of the situation suggests that the current enthusiasm for the grocery chain stocks, taken as a group, is warranted by their past performance, their present position, and their future prospects.

Keeping Abreast

(*Continued from page* 706)

company's first commercial application in the field of agricultural chemicals of its experienced technology in the manufacture of chlorinated cyclic compounds. Patent applications by Heyden Newport covering the new materials are pending in the U.S. and more than 25 foreign countries.

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